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CONTENTS

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NOTICE TO READERS: An * indicates material not disseminated in electronic form.

JAPAN

International Affairs

Foreign Ministerial Talks With USSR Postponed *[ASAHI SHIMBUN 2 Dec]* ... 1
Development Plans for Soviet Far East Reported *[EKONOMISUTO 23 Oct]* ... 1
Big Five Awards UN 'Supreme Power' in Cambodia *[JIJI]* ... 4
Cambodia's Son Sann Interviewed on Peace Issue *[NIHON KEIZAI SHIMBUN 1 Dec]* ... 4
PRC To Extend Trade Accord 5 More Years *[JIJI]* ... 5
* Series Looks at Response to Middle East Crisis *[MAINICHI SHIMBUN 31 Aug, 1-5 Sep]* ... 5
SDF Personnel Oppose Dispatch Overseas *[ASAHI SHIMBUN 5 Nov]* ... 12

Domestic Affairs

Defense Academy Reports Fewer Applicants *[ASAHI SHIMBUN 5 Nov]* ... 12
* Two Papers Interview Eiji Suzuki on Reform ... 13
    * Need for Crisis Management *[YOMIURI SHIMBUN 1 Nov]* ... 13
    * New Directions *[ASAHI SHIMBUN 2 Nov]* ... 14
* Effects of Election Reform on JSP Noted *[TOKYO SHIMBUN 17 Sep]* ... 15
Changes in Keidanren Personnel Appointments Noted *[SHUKAN JIJI 13 Oct]* ... 16
* Income, Disbursement of LDP Factions Reported ... 17
    * Income by Factions *[YOMIURI SHIMBUN Sep]* ... 17
    * Post-Kaifu Power Struggle *[YOMIURI SHIMBUN 14 Sep]* ... 18

Economic Affairs

Industrial Leaders Discuss Future of Economy *[NIHON KEIZAI SHIMBUN 3-7 Oct]* ... 19
Investment Cycle Characteristics, Trends Examined *[NIHON KEIZAI SHIMBUN 9 Oct]* ... 26
Problems in Securities World Viewed *[SANKEI SHIMBUN 24 Oct]* ... 28
* Analysis of Corporations Fundraising Mechanisms ... 29
    * Raising Too Much Money *[NIKKEI BUSINESS 8 Oct]* ... 29
    * Equity Financing Criticized *[NIKKEI BUSINESS 8 Oct]* ... 30
    * Acquiring Low-Cost Funds *[NIKKEI BUSINESS 8 Oct]* ... 33
    * Companies Go Public *[NIKKEI BUSINESS 8 Oct]* ... 35
    * New Rule for Profit Sharing *[NIKKEI BUSINESS 8 Oct]* ... 37
Dominant Corporate Groups Examined *[BUNGEI SHUNJI Oct 90]* ... 40
Enactment of Product Liability Law Expected *[MAINICHI SHIMBUN 15 Oct]* ... 51
Future of Securities Issuance Market Discussed *[EKONOMISUTO 18 Sep]* ... 51
* Current Status, Future Direction of M&A Policy *[KINYU ZAISEI JIJYO 10 Sep]* ... 53
Savings Rate Will Rapidly Decline *[SHUKAN DIAMONDO 10 Nov]* ... 55
Mitsubishi, Daimler-Benz Cooperation Discussed *[SHUKAN TOYO KEIZAI 6 Oct]* ... 56
'Group Mitsubishi' Coming Apart at Seams *[ZAIKAI 23 Oct]* ... 57

International Affairs

Foreign Ministerial Talks With USSR Postponed

OW0212151990 Tokyo ASAHI SHIMBUN in Japanese 2 Dec 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] Mr. Sumio Edamura, Japanese ambassador to the Soviet Union who has returned home for a temporary stay, granted an interview to ASAHI SHIMBUN. He revealed that the Japan-USSR regular foreign ministerial talks planned for mid-December have been postponed, and that both parties are making adjustments to hold the talks early next January. Moreover, touching on the fact that Germany and some other Western countries are positive about providing emergency foodstuff aid to the Soviet Union, the ambassador indicated: "As far as Japan is concerned, it is still premature to study such aid."

Regarding Japan-USSR foreign ministerial talks, the ambassador explained: "While the regular sessions of the Japanese Diet will start on 10 December, the USSR Congress of the People's Deputies will open its sessions on 17 December. Thus, it has become rather difficult to hold the talks in December." He added: "So far, both nations desire to hold the talks at the earliest opportunity in January."

Citing as reasons for the [Japanese Government's] negative attitude toward providing foodstuff aid, the ambassador pointed out as follows: 1) Because the Soviet Union has reaped a record bumper harvest this year, Japanese authorities hold that the food shortage was caused by problems existing in the circulation and distribution system; and 2) it is not easy to include funds for aid to the Soviet Union in the budget.

Development Plans for Soviet Far East Reported

912A0038A Tokyo EKONOMISUTO in Japanese 23 Oct 90 p 22-25—FOR OFFICIAL USE ONLY

[Article by Mitsubishi Research Institute, Economic Research Division, senior researcher Kiyoshi Inagaki]

[Text] President Gorbachev's April 1991 visit was finalized at the regular meeting of Japanese and Soviet foreign ministers held on 9 October. It is certain that the principal focus of the Soviet-Japan summit meeting will be the solution of the outstanding problem of the Northern Territories. This expectation stems from the observation that Japan and the Soviet Union agree in their desire to facilitate economic cooperation by solving the political problem in question. Therefore, President Gorbachev's visit signals the reaching of a "very important turning point in the relationship between the two nations." (Foreign Minister Shevarnadze)

Western Aid Indispensable

In principle the Soviet attitude regarding the Northern Territories remains rigid. On the other hand, the Soviet Union's willingness to negotiate with Japan coupled with the same day agreement to establish diplomatic relationship with South Korea tell the degree to which that nation is striving to improve its relations with Western nations including Japan, and to facilitate economic cooperation with them. Western assistance is indispensable for the implementation of the Soviet plan to shift to a market economy, the issue in dispute at present. Success in the revival of the Soviet domestic economy through this economic reform will be the indicator of the Gorbachev administration's stability. The Shatalin Plan, sponsored by President Gorbachev and presented after reconciling the government plan with that of the Russian Republic on economic reform, specifically mentions the Soviet-Japan relationship in the section dealing with policy regarding the introduction of Western capital. The plan states as follows: "The urgent task at hand for the Soviet Union is the resolution of political antagonism and conclusion of an economic treaty with Japan. A summit meeting in the near future will render these tasks feasible." The statement suggests Soviet expectations for the Soviet-Japan summit meeting as well as the possibility of a resolution of the Northern Territories issue."

At the Houston summit in July, one of the focal discussions centered on aid to the Soviet economy and the cancellation of sanctions imposed on the Chinese economy. Opinions on the topics divided into a "positive on the Soviets and negative on the Chinese" group, represented by West Germany (Germany) and France, and "negative on the Soviets and positive on the Chinese" camps, represented by Japan and the United States regarding policy toward China, the United States expressed sympathy for the Japanese policy of cancelling the sanctions (against China). As to the subject of aid to the Soviet Union, West Germany and France advocated positive aid in the financial area, while Japan, the United States, and Great Britain favored limitation of the aid to so-called intellectual property because of the need to continue to observe, for the time being, the direction Soviet economic reforms will take. At the end, participants to the summit agreed to follow their own favorite way of providing aid to the Soviet Union. One example that illustrates this agreement is West Germany's financial aid to the Soviet Union in the sum of 5 billion marks in compensation for the membership of a unified Germany in NATO.

While the United States and Japan issued a declaration to limit their aid to that of an intellectual nature, they have come to face the need to grope for a new policy regarding aid to Soviet Union that has been necessitated by new developments. In particular, at the time of the present Persian Gulf crisis (invasion of Kuwait by Iraq), the United States appreciated greatly the Soviet Union's effort to fall in step regarding its efforts to obtain sanctions against Iraq. As a result, the content of U.S. policy concerning aid to the Soviets has undergone change. Examples of this are seen in the reevaluation of financial aid to the Soviet Union as well as the World

Bank's announcement that it will provide aid to the Soviet Union (the first case of aid-giving to a non-member nation).

The Timing in Playing the Card

Having received confirmation of Gorbachev's visit, as stated above, Japan also faces a time of decision about when and how to deal the card of economic cooperation as a negotiating weapon in the solution of political problems. Depending on the Soviets' attitude, Japan may have to consider some partial financial aid that goes beyond intellectual aid. Especially in view of Korean economic aid to the Soviet Union and the more active advances Korean enterprises have been making into the Soviet Far East and Siberian regions after the establishment of diplomatic relations between the Soviet Union and Korea, there exists a possibility that Japan may fall behind Korea in cooperation with the Soviet Union. There also is a possibility that in regard to aid to the Soviet Union Japan might become isolated internationally. In this sense, Japan should not miss its timing in dealing the card of economic cooperation with the Soviet Union.

However, Soviet-Japan economic relations may be said to be more advanced in substance than is the political solution of problems, and that the turning point in them has already been reached. This situation was brought about through an opening of doors on the part of the Soviet Union (decentralization) and, on the part of Japanese enterprises, a gradual increase of intellectual aid and joint ventures as part of the development plan of the Soviet Far East.

The Soviets' opening of the door to the outside began with the enactment of the Joint Ventures Law of 1987. Since 1988, discussion about special economic zones (SEZ) ensued and, in 1990, the decision to create SEZ's and to allow 100 percent foreign capital investment has been reached rapidly.

This rapid tempo of opening up far surpasses that of China which, as a member of the same socialist group of nations, opened its doors 10 years ago. Concerning SEZ, the Soviet Union plans to begin the project in its Far Eastern region neighboring Japan and Korea, just as China began in its southern region, including Guangdong Province, thus taking maximum advantage of capital provided by overseas Chinese.

The proposal for SEZ is the main selling point as well as the symbol of the Gorbachev administration. In his speech in Vladivostok in July 1985, General Secretary (at the time) Gorbachev proposed the facilitation of disarmament and economic development in the Far Eastern region as well as Soviet participation in the Asian/Pacific region. This speech was followed by the Krasnoyarsk speech of 1988 and the Beijing speech of 1989. Through these speeches, SEZ has been proposed as the key to the promotion of international economic cooperation in the Soviet Far East.

It is easy to imagine that the Gorbachev strategy, which includes the discontinuation of aid to North Korea (Democratic People's Republic of Korea), the establishment of diplomatic relations with Korea, normalization of diplomatic relations with China and the promotion of economic cooperation with Japan through proposals of disarmament, as well as development of the Soviet Far East, must have been intended to improve relations with the Asian nations that ring the region.

The Soviet SEZ (alternately called "joint venture activity zone" or "joint venture promotion zone") differs from that of China in its concept, purpose and function. Generally speaking, certain areas will be designated as SEZ. Favorable terms will be ceded to foreign capital invested in these areas so that transfer of technology and management know-how will be achieved through cooperative projects as well as the acquisition of foreign currency through imports. The plan aims at the eventual revival of these areas, at the same time making a contribution to the Soviet economy as a whole.

The SEZ plan was proposed in 1988. Initially Leningrad, Vyborg, and Nakhodka in the Far Eastern region were deemed as the leading candidates. However, various disputes concerning the direction of economic reform, as well as the contents of foreign capital introduction within the nation (the federal government) have since then delayed the realization of SEZ. Last year the author presented to the Soviet Government a plan for Nakhodka SEZ in the Far Eastern region as well as a proposal for SEZ policy based on analysis of experience with Chinese SEZ. In response to these proposals, the federal government together, with the Russian Republic, embarked on the preparation of a Foreign Capital Law as well as the realization of SEZ. At the end of July, the Russian Republic designated six SEZ's, Leningrad, Vyborg, Kaliningrad, the Provinces of Chita and Sakhalin, and the Maritime Province of Siberia (Nakhodka and Vladivostok). At the same time the bill for the Foreign Capital Law,which would permit 100 percent foreign capital financing, was presented; investments in the Far Eastern region would be given especially favorable terms.

According to information this author has obtained, the Russian Republic plans, in the near future, to establish a national SEZ committee that controls SEZ policy; simultaneously, a basic law for these six SEZ's will be announced.

Foreign Capital Makes Inroads

Based on these basic directions taken by central governments (federal as well as republics), concrete plans are taking shape in different regions of the Soviet Far East. Keeping step with these plans, activities on the part of foreign capital are making further advances.

In the master plan for the Nakhodka SEZ, proposed by us, the opening of Vladisvostok and its integration with Nakhodka were emphasized as one of the preconditions for the creation of the Nakhodka SEZ. In response to this idea, the Maritime Province of Siberia began work toward the realization of the plan, giving the improvement of infrastructure priority in preparation for the opening of doors and acceptance of foreign capital; renovation of the Vladivostok airport, construction of a road between Vladivostok and Nakhodka and construction of hotels are also envisaged.

Also based on the master plan, the Nakhodka municipal government began a feasibility study on the project to invite municipal industrial parks and administrative/commercial zones. As a result, a 22 item project list was prepared, centering on a redevelopment plan of the Nakhodka/Vostochnyy Bay area.

Governor of Sakhalin Province Fedorov has proposed to turn the Northern Territories (Kuril islands), which administratively belong to the Sakhalin District of the Russian Republic, into a free economic zone. His plan calls for the division of the province into three SEZ zones in order to initiate a concrete transition to a market economy.

In 1987, a development plan to the year 2000 for the Far Eastern region was prepared under Gorbachev's direction. This plan must be revised, since it lacks funding of the enormous sum of 200 billion rubles as well as sufficient consideration of potential cooperative funding together with foreign capital. In contrast, the probability of realization of the plan for the Far Eastern SEZ is good because of its limited scope and because of the fact that concrete projects as well as the form of financial cooperation with foreign capital are clearly indicated. However, critical here again will be the making of improvements in infrastructure, successful fund raising, and success in enticing foreign firms.

Since the establishment of the Joint Ventures Law in the Soviet Union, approximately 1,500 joint ventures have located there as of April 1990. However, joint ventures in the Soviet Far East/Siberia are only 3 percent (47) of the whole. Out of 30 Soviet-Japan joint ventures in operation, more than half are in the Far Eastern region, demonstrating the high interest of Japanese enterprises in this area. The fields where Japanese investments have moved, however, are, with the exception of lumber production, mostly in the service sector, e.g., processing marine products, hotel and restaurant businesses. The absence of machine works illustrates the difficulties Soviet-Japan joint ventures face.

Compared to before last year, the presence this year by Japanese businesses in the Far Eastern region has undergone a great change. Firstly, there has been a rush of establishing offices for Japanese business representatives in Khabarovsk, the center of the Far Eastern region. Whereas there was none until around July of last year, business branches reached 10 in number last year, taking aim at the Soviet opening of doors to the outside, decentralization, and the development of the Far Eastern region. This movement has spread from Khabarovsk to SEZ in the Maritime Province (Nakhodka and Vladivostok) and Sakhalin and it is expected to accelerate further by 1991 when SEZ will begin operation in a serious way.

Korean Financial Groups Participate One After Another

Korean businesses plan to make more aggressive advances into the Maritime Province than Japanese ones. Unlike the Japanese, large Korean financial groups are in the forefront of business advance there. Among these financial groups the Hyundai group plans the most active business ventures in the Soviet Far East Region. Hyundai set up a resident office in Nakhodka ahead of the establishment of diplomatic relations with the Soviet Union, even earlier than did Japanese businesses. Within this year, a Hyundai office will open in Vladivostok, in expectation of the opening of Vladivostok, in preparation for its participation in Far Eastern projects. The Hyundai group's advance in the Far Eastern region includes plans for joint ventures in soap, ship repair, personal computers, and lumber production plants. Hyundai's latest cooperative project with the Soviet Union and China involves the utilization of labor provided by the Korean minority in China in combination with Korean capital and technology joined by the timber resources of the Soviet Union.

Second only to the Hyundai group, the Samsung group plans to promote joint ventures and projects in the field of home appliances and electronics, led by its division Samsung Electronics.

In contrast to the energetic effort to make advances into the Far Eastern Region by enterprises financed by Korean financial groups, Japanese joint ventures in the area at present operate only in marine product processing and in the service sector, and range from small to medium in size. Until now, backers of these ventures were mostly trading companies that specialize in the Soviet-Japan import/export business and local government cooperation along the coast of the Japan Sea, for example, Hokkaido and Niigata Prefectures. However, large trading companies have gradually begun to participate with the progress of Soviet decentralization and the evolving Soviet-Japan relationship. Branch offices of almost all the major trading companies have already been located in Khabarovsk and shortly will expand into the Maritime Province of Siberia. As illustrated in the cases of cooperation between Mitsui & Co. and Toyama Prefecture and that of Marubeni and Niigata Prefecture, new forms of joint ventures financed cooperatively by trading companies and local governmental corporations have made their appearance in the Far Eastern Region.

As has been seen above, advances by Japanese and Korean businesses into the Far Eastern Region will become more active when influenced by changes in international relationships, the establishment of diplomatic relations between the Soviet Union and Korea as well as improvements in the Soviet-Japanese relationship. In addition, European and U.S. aid to the Soviet Union will spill over to the Far Eastern Region as well.

The state of development as well as international economic cooperation in the economy of the Far Eastern Region embody efforts to undo the Cold War in Asia.

The requisites for the liquidation of the Cold War in Asia, however, include the stability of Gorbachev administration and the direction in which Soviet economic reform is heading. Failure of plans to shift to a market economy, be it that of Shatalin or Ryzhkov, would mean a return to a conservative and controlled socialism. The unstable nature of the attempt is seen in the fact that President Gorbachev has been compelled to issue an excess of presidential orders. Therefore, the promotion of Soviet economic reform and the development of the Far Eastern Region under Western initiatives, do contribute to the stability of the Gorbachev administration. The key to the effort will be the course that Soviet-Japan economic cooperation charts in the future. Through the granting of official recognition that the Soviet Far East is an economically developing area, Japan should make that area an object of ODA (Official Development Assistance) and play the card of financial aid to secure the improvement of the infrastructure there. Through the use of this card, Gorbachev's administration may be able to mark not only a turning point for the Soviet-Japan relationship, but also a turning point for Asia and the entire world scene as well.

Big Five Awards UN 'Supreme Power' in Cambodia

OW0112145190 Tokyo JIJI in English 1409 GMT 1 Dec 90

[Text] Bangkok, Dec. 1 (JIJI PRESS)—The five permanent members of the U.N. Security Council and other parties struggling for peace in Cambodia have agreed to award the United Nations supreme power to govern the civil war-ravaged Indochinese nation during a transitional period until a national government is elected there, it was learned Saturday.

The accord was reached at a meeting of officials representing the five nations and the United Nations as well as Indonesia, a co-chairman of the stalled Paris international conference on Cambodian peace, in Paris last Monday.

The 49-page documents, including a draft agreement on a comprehensive political settlement of the Cambodian conflict and its annexes, obtained by JIJI PRESS, stipulate that transitional administrative agencies, organizations and offices for foreign affairs, defense, finance, public security and intelligence be put under direct supervision of a "U.N. Transitional Authority in Cambodia (UNTAC)."

UNTAC will have civilian and military components under the direct responsibility of the U.N. secretary-general, according to the documents. This signifies that supreme Phnom Penh leader Heng Samrin will lose control over the five major governmental arms.

In another part, the documents say a "special representative" of the U.N. secretary-general will have a final say in any decision-making process if the Supreme National Council (SNC), Cambodia's interim government, fails to produce consensus.

The U.N. special representative will be authorized to appoint U.N. officials to any administrative agencies of Cambodia or discharge any officials of such agencies. But the agreements also say UNTAC should be fully responsive to coordinated views of Cambodia's four factions forming the SNC.

The four SNC parties are the Vietnamese-backed Phnom Penh government of Prime Minister Hun Sen, the Khmer Rouge, the followers of Prince Norodom Sihanouk and the Khmer People's National Liberation Front.

On military matters, UNTAC is supposed to win power to monitor and verify foreign troop pullouts and a cease-fire, as well as to order the forces of all four warring factions to specified points and disarm them. A timetable to this effect will be worked out through future UNTAC negotiations with the four factions, according to the documents.

The parties to the November Paris meeting also agreed that a national election should be held on the basis of proportional representation with people aged 18 or over eligible to vote.

It seems likely that the new peace initiative will be proposed soon to the SNC. Pending an SNC approval, the Paris international conference, suspended since last August, will be resumed. But the Phnom Penh government is believed certain to reject the latest peace package as it is, since it has long been opposing assembling troops and arms and disarmament.

Cambodia's Son Sann Interviewed on Peace Issue

OW0112133090 Tokyo NIHON KEIZAI SHIMBUN in Japanese 1 Dec 90 Morning Edition p 8—FOR OFFICIAL USE ONLY

[Text] Paris, 30 Nov—Prime Minister Son Sann of the National Government of Cambodia (a union of three factions opposed to Vietnam), in an interview with a NIHON KEIZAI SHIMBUN reporter, gave his views on the Cambodian peace issue, which is heading toward resolution with an agreement by the five permanent members of the UN Security Council. He is now visiting Paris.

Saying that "there is no other way to resolve it except by the peace measure of the United Nations," the prime minister called on all four factions in Cambodia to immediately sit together at the table for talks.

Regarding the fact that the pro-Vietnamese Heng Samrin government is not accepting the UN measure, he said: "The Soviet Union's push from behind is a must if peace is to be achieved." He also expressed a strong hope that the Paris talks will be held before the end of this year, saying: "If a war breaks out in the Gulf, Cambodia will be ignored. This is the last chance to resolve the issue."

Questions and answers exchanged with Prime Minister Son Sann are given below:

[NIHON KEIZAI SHIMBUN] The United States, the Soviet Union, the United Kingdom, France, and China arrived at a final agreement on the UN peace measure. What is the remaining task before peace can be restored?

[Son Sann] The four factions already agreed to accept a UN-proposed measure in the Jakarta negotiations in September. The four factions must gather in Paris, discuss the proposed measure in detail, and sign a peace treaty at the international talks in Paris. In the interim period up to the time a free election is held, we will have to decide how the Supreme National Council, the highest organ of national power, should be organized.

[NIHON KEIZAI SHIMBUN] Prime Minister Hun Sen of the Heng Samrin government has announced that he would not attend the four-faction talks in Paris.

[Son Sann] The reason why Prime Minister Hun Sen has come to feel reluctant recently about accepting the UN measure is because Vietnam is putting pressure on him. The prime minister discussed the UN measure, which in fact approves of the United Nations temporarily governing the country, with Vietnam and Laos, and they concluded that the measure is not desirable. So now he is trying to stall enforcement of the measure . If Prime Minister Hun Sen cannot come himself, then I hope someone else will come on his behalf. Someone who represents the interests of Cambodia, not Vietnam, should come for the talks.

[NIHON KEIZAI SHIMBUN] Can there be a breakthrough toward resumption of the international talks in Paris?

[Son Sann] China, for instance, is earnest about a resolution, trying to persuade the Pol Pot faction. One country that can persuade Vietnam and Prime Minister Hun Sen is the Soviet Union. The Soviet Union has been proposing the idea of making Southeast Asia a zone of peace and neutrality. For the idea to be realized, peace in Cambodia is essential. I hope the Soviet efforts will lead to a resolution based on the UN measure.

PRC To Extend Trade Accord 5 More Years

OW3011142990 Tokyo JIJI in English 1356 GMT 30 Nov 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Nov. 30 (JIJI PRESS)—Japan and China have agreed to extend by another five years their private-level trade accord, which expires at the end of this year, Japanese trading industry sources said Friday.

The signing of the renewed accord, calling for China to ship around 8 billion dollars worth of oil and coal and Japan to export the like value of plants during the five years, will take place in Tokyo Dec. 18, the sources told JIJI PRESS.

Chinese exports of crude oil to Japan will be pegged at 8.8 million to 9.3 million tons a year under the new accord.

China will increase coal exports to Japan to 1.4 million to 1.8 million tons for coking coal and to 2.5 million tons to 3.5 million tons for steaming coal, the sources said.

Japan will ship to China plants related to energy and agricultural development. Details of Japanese exports are not yet available, however.

The accord will also call on Japanese and Chinese officials to gather once a year in Tokyo and Beijing, alternately, to review how the accord is being implemented. It also envisions bilateral cooperation in the field of science and technology, the sources said.

The Japan-China Trade Pact, launched in 1978 to help stimulate economic cooperation between the two countries, had an initial duration target of 1978 through 1985. In 1979, the pact was extended to 1990.

* Series Looks at Response to Middle East Crisis

902B0254A Tokyo MAINICHI SHIMBUN in Japanese 31 Aug, 1-5 Sep 90—FOR OFFICIAL USE ONLY

[31 Aug 90 p 1]

[Article by Mizuo Osuga, Political Division]

[Text] **Ill-Defined Ideology; An Agonizing Decision—The U.S. Influence on Japan's Contribution**

Prime Minister Kaifu has decided upon Japan's contribution to the solution of the Mideast crisis. The contribution of a total of $1 billion (approximately 145 billion yen) to the multinational forces, unlike Japan's other contributions (economic aid to Middle Eastern nations and the dispatching of a medical team to aid refugees), represents direct participation in the military effort. This is an important turning point for the diplomatic and security policy of a "peaceful nation" which has avoided any involvement in areas where conflict is taking place, citing the limitations of its peacetime Constitution, which prevents Japan from providing military aid. According to a Foreign Ministry official, "this decision represents a maximum effort on Japan's part to fulfill its responsibilities as a member of the international community," but the ideology behind the decision was never clarified during the decisionmaking process. The rest of the world will not allow Japan to go on forever walking the "symptomatic treatment" tightrope. This recent decisionmaking process has subjected Japan to a serious examination of what sort of role it envisions for itself.

At 7:00 AM on 31 August, the day after Japan's contribution was made public, the prime minister summoned

Foreign Minister Nakayama, Finance Minister Hashimoto, and chief cabinet Secretary Sakamoto to his residence for an emergency meeting, at which it was determined that Japan would provide financial aid in the amount of $1 billion. The suddenness of the prime minister's decision is evident in the fact that Director Mori of the Coordination Division, International Finance Bureau of the Ministry of Finance, who oversees matters of financial assistance, had not been apprised of the amount of the contribution, when it would take place, or how it would be used. Throughout the whole process, President Bush's "strong determination" loomed in the background.

Prior to the announcement of Japan's contribution, President Bush had said of his telephone conversation with the prime minister only that he had "listened with great interest." After the decision was made to contribute $1 billion, his tone changed, and he praised Japan highly, saying that "I appreciate the prompt action taken. This decision will be very much appreciated in the United States." It is easy to guess what happened in the interval between the two statements.

According to a Foreign Ministry official, the U.S. Government has continued to send out the following important signals to the prime minister through all available channels.

"Japan is now at a crossroads. Its course of action will determine whether it is to be isolated from the rest of the world, or if it can truly be a global partner of the United States. It is vital for Japan (in determining its contribution) to be well aware of this fact, and to act in a tangible way that will gain international recognition."

A close associate of the prime minister, deputy chief cabinet Secretary Oshima, explains that the most recent contribution "is the most we could do within the axis of two coordinates—the new international order resulting from the destruction of the Cold War structure, and Japan's international responsibility as a 'mature' nation." The government denies that there was any pressure from the United States, and the prime minister himself has continued to emphasize that this was a "totally independent decision," but....

A government employee who was in a position to observe the prime minister during the course of the "painful decision" describes the situation as follows.

"First, we wish to do all possible to avoid antagonizing Iraq, in order to protect Japanese citizens remaining there. In Japan, there is no guarantee of strong public support for a hard-line policy like that adopted by the United States and Great Britain. Second, since we had absolutely no idea that such a crisis was imminent, we lack the legal basis for most actions. This is the main reason why things got bogged down. Third, there were critical disagreements about how much we could respond to the U.S. request for some demonstration of Japan's intention to act as its global partner, within the framework of the existing Constitution."

So, it seems that while all this was going on, the prime minister resolved that Japan would fulfill its responsibility as a member of the international community, with the justification that the contribution is "within the framework of the Constitution" and "in accordance with United Nations policy."

Backed up by the high level of public support for his cabinet, the prime minister had scheduled a relaxed visit to five Middle Eastern nations, the first ever to be made by a Japanese head of state. These plans changed completely with the Iraqi invasion of Kuwait. He postponed his trip, and instead "made a series of agonizing decisions resembling tightrope walking" (a close associate of the prime minister). This is the same prime minister who had increased his level of public support with his skilled performances in diplomacy. But during the recent decisionmaking process, he stayed almost entirely out of the public eye. In the process of determining Japan's contribution, disharmony and sluggishness within the various branches of the government were conspicuous. Officials of the relevant ministries and agencies were almost open in their criticism that "the causes of confusion were the Foreign Ministry's tendency toward secrecy and the fact that the prime minister failed to demonstrate leadership."

It would be unfair to place all the blame upon the prime minister. A leading member of the LDP [Liberal Democratic Party] points out that one reason for the slowness of the decision is that "during the postwar era, Japan has hidden behind the United States, and has neither thought about nor taken any action on matters of international security. Now, all at once, we are faced with the bill."

"The destruction of the Cold War structure had the effect of opening a Pandora's box. An example of this is the recent Iraqi 'outrage.' Issues which the new economic power, Japan, had previously considered taboo, and the various inconsistencies in this 'peaceful nation' have suddenly come out into the open."

In any event, most government and LDP officials are in agreement in their recognition that Japan's contribution may be "little more than a stopgap measure." Already, deliberations which may lead to the revision of the Self-Defense Forces Act have been put on a definite schedule. Within the LDP, there is suddenly talk of revising the Constitution. Even though temporary measures have been taken, a full-scale decision must eventually be made. Any mistakes made by Japan in the handling of this situation can be expected to have an effect on the fate of the current government. The position in which the prime minister has been placed is exactly Japan's current position in the international community. Japan has to do something to maintain peace. But that "something" remains undefined. At this rate, Japan will not be able to gain international acceptance. The world is now asking Japan, as a peaceful nation and as a member of the international community, what its ideology is.

[1 Sep 90 p 1]

[Article by Rikuo Sato, Washington Bureau]

[Text] **The Disappointment of Pro-Japan Americans; Japan's Responsibility in the Post-Cold War Period—The Same Old Story**

"We have been Japan's cheerleaders. We were sure that Japan would hit a home run as soon as it got into the batter's box. We have been telling everybody, just wait and see how they hit. But Japan hasn't even come out of the dugout."

These are sentiments expressed by Michael Armacost, U.S. ambassador to Japan, upon hearing the 29 August announcement of Japan's Middle Eastern contribution. Such was the disappointment at Japan's contribution experienced by members of the U.S. Government, including Armacost, who have been singled out as "Japan partisans," according to a high-ranking U.S. Government official who disclosed the ambassador's private comments to our reporter.

What sort of contribution were the Americans expecting from Japan? Had they been asked what they considered to be the maximum contribution, they probably would have replied that Maritime Self-Defense Force personnel should be able to participate, in some way, in the multinational forces. The truth is that the United States did make an alternative proposal, asking that private aircraft and ships be made available. But Japan's response was minimal. And time passed agonizingly slowly while the decision was being made. This same high-ranking official still believes that Maritime Self-Defense Force cooperation is possible, even within the framework of the present Constitution.

We have not heard this sort of criticism of Japan from the U.S. Government from any official source. At a press conference on 30 August, after the news came out about Japan's billion-dollar contribution, President Bush was asked whether he accepted the fact that Japan's contribution was to be only financial. His reply was "I am well aware of the limitations placed upon Japan. I haven't asked him (Prime Minister Kaifu) to do anything which is proscribed by Japan's Constitution." On the contrary, he praised the contribution as "voluntary" and "a very good thing."

But this statement reflects only the United States' official stance. The U.S.'s true colors are revealed in the previously-cited comments made by the high-ranking government official and by the ambassador. Pat Buchanan, a commentator for the U.S. CNN network, a conservative famous for not mincing words, went as far as to say that "to protect Japan's oil supply, American soldiers will end up coming home in body bags."

Japan's six-part contribution and the billion dollars in financial aid must certainly have been "an agonizing decision" and "the maximum effort." And the U.S. Government recognizes it for what it is. But there is no doubt that the United States and the international community were expecting more than that from Japan. And it is clear that this contribution has not dispelled the feeling of most Americans described in NEWSWEEK as "What is Japan, the new 'superpower,' doing?"

If we delve into this problem, we discover the differences between Japan's attitude and that of the rest of the world, particularly the United States, about what Japan's role should be, now that the end of the Cold War has been brought about by the dramatic changes in Eastern Europe and the Soviet Union. The current Middle Eastern crisis is the first international crisis of the post-Cold-War era, and the first time for Japan's role as a superpower to be questioned. Just how aware of that fact were Japan's policymakers during the course of this decision?

The U. S. aims in taking quick military action were fourfold: to force Iraq to withdraw from Kuwait, to reinstate Kuwait's legitimate government, to defend Saudi Arabia and other Persian Gulf Arab nations, and to protect American citizens. At his 30 August press conference, President Bush gave additional reasons for the actions taken by the United States, explaining that (1) U.S. friendship and commitment to allied nations, (2) the post-postwar structure, and (3) the preservation of energy resources, are at stake.

The supreme commander of the U.S. military operation "Desert Shield," Colin Powell, chairman of the Joint Chiefs of Staff, was more direct. "When problems arise (in the world), or when policing becomes necessary, who is called upon to restore peace? We are." In a speech before the annual meeting of the American Legion on the same day, Powell explained that the United States is still the "world's police force," and that even though a new era has dawned in which antagonism between the United States and the USSR has changed to a harmonious relationship, there has been no change in the U.S. role as a leader.

The definitive difference between the current Mideast crisis and the previous crises which have occurred in the Middle East and the Persian Gulf since the Palestine war (the first Middle Eastern war) in 1948 was revealed most clearly at the UN Security Council at dawn on 25 August. The resolution presented by the United States proposing the exercise of "minimal force" to strengthen the blockade against Iraq obtained the agreement of the Soviet Union and China, and was passed by a vote of 30-0. This was the moment in which opposition between the United States and the USSR, which had colored every Middle Eastern crisis, ended.

Without a doubt, the disappointment expressed by U.S. Government officials who are Japan partisans was a manifestation of their irritation over the fact that their hopes that Japan would exercise a greater influence in this first international crisis of the post-Cold-War era had been betrayed. Japan's response, from beginning to end, was typical of previous responses—no change whatsoever. It is true that the United States went too far in attempting to interfere in Japan's constitutional problems, but it is important for us to realize that Japan has not succeeded in clearly demonstrating what its own position is in this new era, or what sort of international contribution it wishes to make.

Prime Minister Kaifu has submitted an article for the fall issue of FOREIGN POLICY, a journal specializing in international affairs, which will come out on 2 September. His article is entitled "Japan's Vision," and in it, he emphasizes that "Japan is determined to participate in good faith in the process of building a new international order, as one of the Asian nations, and as an advanced democratic nation." The United States wants to know, more than anything else, what Japan's "vision" is.

[2 Sep 90 p 1]

[Article by Toru Kuroiwa, London Bureau]

[Text] **No Expectations of Military Participation; The Western European View—Japan's Contribution Should Be A Political One**

In Western Europe, there have been predictions for some time now that the Middle East might become a threat to Western Europe. This spring, the historian, Paul Johnson, indicated to our reporter in an interview that "when East-West military tension has been eliminated, the Middle East may pose a threat to Western Europe. If Iraq and Syria, in particular, acquire long-range missiles, the situation will become complicated." He added that "having found an enemy to replace the Soviet Union will provide the opportunity for Western Europe to strengthen its unity." His prediction became reality all too soon.

Then there are the discussions which took place at the NATO summit conference held at the beginning of July. Since NATO's strategy will change significantly, due to the alleviation of East-West conflict, along with these changes, the subject of forming a new NATO position on and strategy for regional conflicts, particularly in the Middle East, was broached. British prime minister Thatcher reports that she "warned the gathering about the Middle Eastern threat at that meeting," and prides herself on her foresight, adding that "at that time, some thought that it would not be appropriate for NATO to interfere in problems outside its jurisdiction. But the events which occurred later showed the correctness of my assertion."

Prior to the Middle Eastern threat which materialized, just as Paul Johnson had predicted, only sooner, the West did band together. The United Nations' punitive sanctions against Iraq were unanimously supported. But though the Western nations were politically unified, they were not able to unify in military action. This is what led prime minister Thatcher to criticize, though obliquely, the attitude taken by West Germany and Italy: "There are members of the (Western European) political alliance who make eloquent speeches about security policy, but when an event with the potential to have an enormous effect on us actually takes place, they vacillate." The truth of the matter is that the Western nations are absolutely unable to act in concert.

That is why, among the Western European nations, it was only Great Britain, which immediately mobilized a large number of troops, and that criticized Japan's contribution as being "too little, too late" (THE DAILY TELEGRAPH, a British newspaper). We have heard no criticism of Japan from West Germany or Italy, and it is absolutely not true that Japan is isolated from the rest of the world. It would be more appropriate to say that the United States and Great Britain are in the minority.

A detailed analysis of what Western Europe's expectations of Japan are in this time of crisis shows some distinctive features. We cannot be certain whether this is because everyone has become aware of the limitations of Japan's Constitution, or because there is apprehension about Japan's increasing its military strength. But, whatever the case, no one seems to be expecting Japan to play a military role. Furthermore, there has been no urging that Japan's Self-Defense Force personnel take part in the multinational forces.

Immediately after the decision was made about Japan's Middle Eastern contribution, the British tabloid, THE SUN ran the following in its editorial column "THE SUN Advocates": "This message is for West German and Japanese diplomats stationed in London: the United States has spent $1.3 billion on its activities in the Persian Gulf. Great Britain faces a bill of several hundred million dollars. How much will the two golden ones contribute? Deutsch marks and Japanese yen would certainly be appreciated."

The British popular press often acts as a mouthpiece for the prejudices of the people, expressing their criticism of foreign nations in strong language. This particular "advocacy" contains sarcastic remarks about West Germany and Japan for not responding promptly, the way the United States and Great Britain did. But, unexpectedly, it also shows that it is a financial contribution, and not a military one, that is wanted from Japan. A British Government spokesman who is familiar with Japan told us that "we are not asking for Japanese military intervention. But since Japan is dependent on Middle Eastern oil, we want it to set a precedent by responding strongly when Europe and the United States take action on a matter of vital interest to them."

According to Professor Boyd of London University, a specialist in modern Japanese politics, the use of political power is one way of "responding strongly." His reasoning is that "Japan should take on the role of mediator between the Middle East and the United States and Britain, both of which have made a definitive response in the form of military strength. Japan's Foreign Ministry would probably prefer not to get entangled in the Middle East crisis, but Japan has become a leading nation in a political sense, too."

Americans are dissatisfied that the United States is exercising military force for Japan's benefit, though Japan depends on the Middle East for more than half its energy supply. But that is the American view, and it is important to remember that the United States and Great Britain have dispatched ships to protect their own interests. It is natural for Japan's response to this crisis to be different from that of the United States. Furthermore, Professor Boyd has explained that Japan's response should be that of a mediator which exercises political power, backed up by economic strength, and not military force.

Japan must exercise political power in ongoing international crises, and not just in emergencies. International opinion holds that Japan has the power to do so and expects it to demonstrate that power. That is how important Japan has become.

[3 Sep 90 p 1]

[Article by Michio Shioda, Economic Bureau]

[Text] **The Fragility of Economic Security;"Oil Diplomacy"—Deep-Seated Optimism**

What effect will the Middle Eastern crisis have on the Japanese economy? The analyses of economic specialists are uniformly optimistic.

For instance, Masaru Takagi, director of the economic survey division of the Fuji Research Institute, is of the opinion that "even if the price of oil temporarily exceeds $30 per barrel, that situation won't last long. Prices are more likely to stay at $20-25 per barrel." He adds that the growth of Japan's GNP for FY 1990 will decline at most by 0.2 percemt, guaranteeing a growth in the area of 4 percent. Other research organizations view the situation in almost the same way. In other words, they are saying that the Japanese economy will not be shaken by this crisis.

Where in the world does all this confidence come from? When did Japan rid itself of its fears about oil?

Let us take a look back at the first oil crisis, which occurred 17 years ago. In response to a remark made to then Saudi Arabian Minister of Oil Yamani, a central figure in Arab oil strategy, by one of the top executives of a major company, "if we reduce the supply of oil, it will be Japan and Italy who are hit the hardest (not the pro-Israeli United States)," Yamani cheerfully replied "I am aware of that. That is my intention."

Exactly what his intention was became clear during subsequent Japanese diplomatic efforts. Takeo Miki, (then) deputy prime minister, visited all of the Arab nations as a special envoy. Thus began "oil-begging diplomacy." By clearly demonstrating its friendship with the Arab nations, Japan was finally guaranteed a supply of Arab oil. We became painfully aware that oil is a strategic product, in terms of economic security.

But now the prevailing opinion is that oil is not a strategic product, but only a market-leading commodity. Thus, the two oil crises have been a painful lesson to the oil-producing nations, and oil has lost is force as a strategic commodity.

The most important lesson was that raising oil prices beyond a certain point prompts the advanced nations to adopt energy-saving measures and to develop alternative sources of energy; and then demand declines. In Japan, for example, energy conservation has made it possible to raise the GNP by 1 percent, using only half the amount of oil required at the time of the first oil crisis.

Furthermore, the advanced nations have a 100-day oil reserve, on the average, which gives them staying power. Japan's had only 53 days worth of oil on reserve prior to the first oil crisis, but now has 142 days worth.

This situation has tied the hands of the oil-producing nations, and made it impossible for them to raise prices recklessly, or to threaten to reduce the supply of oil. There is no chance of long-term short supply. At least, that is how the oil specialists see it.

Japan's oil strategy is based on its experiences during this series of events. The oil-producing nations, whose balance of payments has worsened, cannot neglect the cultivation of a huge, attractive consumer market, and must consider the possibility of economic cooperation, of which they would be the beneficiaries. For collateral, they must guarantee a stable supply. Japan's economic security strategy has proved quite successful, at least so far.

Semi-advanced Asian nations are now dispatching government officials at the ministerial level to oil-producing nations in a furious effort to guarantee an alternative oil supply. But they do not always succeed in these efforts. Japan, on the other hand, "has managed to secure a supply which is likely to last until the end of the year" (MITI [Ministry of International Trade and Industry]), mainly from Iran. And not at a high price. Some oil-producing nations have even made overtures to Japan.

There are nations which, though they make pilgrimages to oil-producing countries, cannot get the Arabs to sell to them, and there is Japan, to whom the Arabs make overtures. This difference, which influences oil dealings, is explained by the differences in economic strength. Japan is well on its way to achieving its goal of economic security. If one thinks along these lines, then it is reasonable for Japan to present its contribution to the Mideast crisis in the form of financial aid. If Japan is prepared to stand firm, even if it incurs the displeasure of the United States, then this is a viable choice.

But when there is a crisis, this strategy is effective only up to a point. If the hostilities are extended to Saudi Arabia, the United Arab Emirates, and throughout the entire Persian Gulf area, then economic security obtained through economic strength will immediate collapse. Japan depends on the two nations for one-third of its oil imports. If the oil in the Persian Gulf is destroyed by Iraqi missiles, the recovery process is likely to take at least six months. And, if the entrance to the Persian Gulf, the Strait of Hormuz, becomes impassable, then most of the oil supply coming from the Middle East (upon which Japan depends for 70 percent of its supply) will certainly stop.

In two warehouses, one in Tokyo Prefecture, and one in Saitama Prefecture, are several hundred million ration coupons for oil, left over from the first oil crisis. If necessary, they can be used at any time. All that is needed is to have "gasoline" or "kerosene" printed on them. Unfortunately, "oil diplomacy" using economic strength as leverage, and economic security do not provide enough of a guarantee to make it possible to destroy these ration coupons.

[4 Sep 90 p 1]

[Article by Social Affairs News Team]

[Text] **The Safety of Japanese Citizens; Crisis Management—A Vertical Administration at an Impasse**

On the sixth floor of the building which houses the prime minister's office, right across the street from the prime minister's residence, is the Cabinet Security Affairs Office. It has approximately 20 staff members, and is headed by Ichiro Yoneyama. The Korean Air Lines incident (September, 1983) prompted its establishment four years ago "as a coordination center, to act, mainly, in situations involving national security" (Cabinet Secretariat Organization Act, Article 5).

This office acted as a coordination center when an accident involving a large sport fishing boat and the Nadashio, a submarine belonging to the Maritime Self-Defense Force occurred (July, 1988), and when a CAAC [Civil Aeronautics Administration of China] aircraft was hijacked (February, 1989). However, the Cabinet Security Affairs Office has not become involved in the recent problem of the confinement of Japanese citizens [in Iraq].

A cabinet spokesman told us that "one of the problems facing us now in the Middle East, that of getting Japanese citizens who have been taken hostage out of Iraq, is the responsibility of the Foreign Ministry. At a time like this, when Japan is at its wit's end over the Iraqi problem, how often do you hear people talking about it on the train?" His complaint resembles a remark made by (then) Prime Minister Kishi in 1960, when the Diet was in an uproar over problems concerning the Japan-U.S. Security Treaty, who said "I am amazed to see all the people at Korakuen stadium enjoying baseball." Is there really a difference between national security and the safety of its citizens?

[Atsuyuki] Sasa, who was chief of the Cabinet Security Affairs Office when it was first established, and who is knowledgeable about crisis management, expresses the following opinion: "The protection of Japanese citizens residing overseas is an important government responsibility. In the current problem with Iraq, our vertical administration was a bottleneck, so the Japanese Government had a great deal of difficulty coming up with an effective response. A problem like this, since it requires cabinet coordination, should be assigned to the Security Affairs Office."

A full month has passed since Iraq invaded Kuwait. Of the Japanese citizens confined to a hotel, 70 women and children have managed to return to Japan. But 140 adult males who were moved from Kuwait to Iraq are still held hostage at strategic sites, such as military installations.

"The twice-daily Japanese language radio broadcast was our only source of information." These are the words of the wife (41) of an employee of a leading trading firm. A staff member of the advertising division of a leading machinery manufacturer complained that "almost all of the information we received originated from Tokyo. We had absolutely no idea what was happening right where we were, in Iraq."

The statement made by a trading firm employee was more direct. "Without any source of information, people are overcome with anxiety. Information provides security. The Foreign Ministry and the embassy staff don't seem to know that safety can be bought."

For those involved in crisis management, August is "the evil month." Kim Tae-chung was abducted on 8 August 1973. The bombing of the Mitsubishi Heavy Industries building occurred on 30 August of the following year, 1974. Mr. Sasa, who was an official of the National Police Agency at the time of the Kim Tae-chung incident, commenting on the current crisis, explains that "the government was so caught up in the Soviet Union's *perestroyka*, the Eastern European problems, and the SII [Structural Impediments Initiative] talks that it was unable to pay close attention to the situation in the Middle East. It may be cruel to criticize the government for that, but I am unable to accept the way in which it responded after the Iraqis invaded Kuwait."

In the operation room on the sixth floor of the Foreign Ministry building, the telephone line to the Japanese Embassy in Baghdad is kept open at all times, and the staff is busy in its efforts to obtain information.

Specialists admit that "it is absolutely impossible to predict what actions Iraq will take," and that "each Iraqi negotiator tells us something completely different. They keep us running around."

The wife (32) of an employee of a company incorporated in Iraq, who returned to Japan on 2 September, openly criticized the Japanese Government and the Foreign Ministry. "This situation has been handled very poorly.

(Iraq's) attitude changed after just one statement issued by the foreign minister. We were terrified, not knowing what would happen next."

As of last October, there were 587,000 Japanese residing overseas. Every year, nearly a million Japanese tourists travel abroad. And the number of cases in which Japanese businessmen become victims, such as the kidnapping of the branch manager of Mitsui & Co. (November 1986), is increasing. But this is the first time that government handling of the rescue of Japanese citizens residing abroad has been so severely criticized.

A government spokesman draws a "precautionary line." "Japan's crisis management is, first and foremost, the job of a group of specialists from the relevant ministries and agencies. The protection of Japanese citizens is the responsibility of the Foreign Ministry, and other ministries and agencies have no business interfering."

But a Foreign Ministry official told us that the recent confinement of Japanese citizens was a "totally unforeseen event." A cabinet spokesman also expresses his bewilderment. "It is, of course, beyond imagination that any nation would use force to prevent Japanese citizens from leaving its territory."

The daily routine at the Security Affairs Office has not changed since this incident occurred. Staff members now have beepers, and it is possible to communicate with ministries and agencies by facsimile machine. These modernizations were instituted after the CAAC aircraft hijacking incident. In the office, the staff continues with its work, but there is no one on night duty.

According to a cabinet spokesman, "if the Security Affairs Office takes charge of problems other than those for which there is an established procedure, then the impression is given that a national crisis is occurring. The Security Affairs Office is the court of last resort."

Obstructed by a vertical administration and the barrier of "established procedure," the direction of Japan's crisis management remains unknown.

[5 Sep 90 p 1]

[Article by Yoshinobu Odawara, Political Bureau]

[Text] **The Sluggish Response of the Diet; Paying the Bill for Peace—Indecision About an Extraordinary Diet Session**

A month has passed since Iraq invaded Kuwait. During this time, practically no deliberations have been held in the Diet. In response to the government's decision on Japan's contribution, the major and opposition parties, faced with the imminent convocation of an extraordinary session of the Diet, finally started their behind-the-scenes activities. But the session still has not been scheduled. This is an unusual situation.

"The establishment of Japan's Diet and administrative organs was based on interpretation of the Constitution. Now these entities are constrained by the views of past governments and the question-and-answer procedure of the Diet, and are simply unable to act. Though this situation has not caused many problems in the past, I think it is a sign of peacetime complacency."

This was the lament of former chief cabinet Secretary Gotoda, voiced at the LDP General Council meeting held the day before the government's decision on Japan's contribution. Mr. Gotoda has worked on the solution of several crises, including the Korean Air Lines plane shot down by the Soviet Union, Japan's handling of the Iran-Iraq war, and the increasing trade friction between Japan and the United States, as the "clerk" of the Nakasone cabinet. Based on his experiences, he has devised various measures to strengthen the cabinet's function, so that the traditional limitations of the administrative structure might be overcome. Nevertheless, we could sense his impatience and irritation at not knowing exactly what Japan should do in the face of this Middle Eastern crisis, the likes of which it has never experienced.

If an extraordinary Diet session is convened soon, some people in the government (LDP) feel that "we won't have time to prepare a bill for implementing the contribution." On the other hand, the opposition parties are hesitant, saying that "even though this is an unprecedented situation, it would be extremely difficult to start out with the traditional question-and-answer procedure, with the government responding. If we are not careful, we will be thrown into the ring with the LDP. Thorough preparation is needed" (a Socialist Party official). Though members have called for an extraordinary Diet session, they don't seem to really want one.

Until now, the focus of Japan's security policies was the debate about what the function of the Self-Defense Forces should be, within the framework of the Japan-U.S. Security Treaty and of the Constitution. These debates were often of a hypothetical nature, and tended toward the abstract. Japan had never before been faced with the question of the propriety of dispatching Self-Defense Force troops overseas.

At a meeting of the LDP General Council held after the contribution was determined, replies to this question began to develop. The chairman of the LDP Research Commission on Foreign Affairs, Yohei Kono, who represents the "doves," spoke prudently.

"It is only proper that Japan assume its international responsibility, but this should be limited to economic support, and we must not be tempted to dispatch Self-Defense Force troops. Remember the voices of concern raised by nations who have suffered in past wars. Some may feel that 'we have spent so much money on the Self-Defense Forces—why aren't they being mobilized at a time like this?' But spending money on them and not using them is a blessing for Japan."

In response to this statement, Shizuka Kamei, chairman of a group of Diet members known for being "hawks," the Association of Members in Agreement on Basic National Problems, states his opinion.

"There is a difference between the postwar period and the current situation. If our troops participate in the United Nations peacekeeping forces, which would be the only circumstances under which we would dispatch troops, then we must assume that there will be armed conflict. Should there be a war, then we cannot evade our responsibilities. In the past, the government has managed to avoid a situation like this through its interpretation of the Constitution, but we have reached the limit. If we continue to interpret our Constitution in this manner, its very force will be lost. Why don't we make a direct proposal to our citizens (for constitutional revision), and let them judge?"

Even within the ranks of the LDP, the prevailing sentiment about constitutional revision is that "it is unwise to speak out so boldly in the heat of the moment" (a leading member of the Komoto faction). There is also the feeling that "constitutional revision will not be possible, if the opposition parties continue to hold the majority of seats in the House of Councillors" (a leading LDP member).

Nevertheless, as LDP Secretary General Ozawa says, it is certain that "whether or not Japan accepts a 'suitable burden' which gains international understanding will have a tremendous effect on Japan's national interests." Mr. Ozawa was emphatic when he told Prime Minister Kaifu that "the dispatching of Self-Defense Force personnel to participate in the United Nations peacekeeping forces is possible under the existing Constitution. One possible decision is to do nothing, but doing nothing will isolate Japan from the rest of the world."

With the destruction of the Cold War order, Japan's peacetime Constitution is being reexamined, and the reason for the existence of the Self-Defense Forces is being questioned. The flames have spread even further, to the issues of dispatching Self-Defense Force personnel overseas, and revising the Constitution, all because of the Middle Eastern crisis. Furthermore, there is the vague feeling of danger, as Japan's crisis management, security, and constitutional interpretation remain unmodified, while reality is moving ahead.

It is impossible to deny that "Japan, unlike Europe and the United States has been proceeding under the conviction that water and security can be obtained free of charge" (a Socialist Party official). The recent disorder in our politics is a reflection of the fact that the time has come for us to pay the bill. This is a tremendous responsibility.

SDF Personnel Oppose Dispatch Overseas

WA1911O200 Tokyo ASAHI SHIMBUN in Japanese 5 Nov 90 Morning Edition p 30—FOR OFFICIAL USE ONLY

[Text] On 4 November a "Thorough Debate Meeting" was held in Nakano Ward, Tokyo, to oppose the dispatch of Self-Defense Forces [SDF] personnel overseas and the emperor's enthronement ceremony. The meeting was called by "antiwar SDF member" Makoto Konishi (age 41), who had been found not guilty after being accused of violating the SDF Law by distributing antiwar flyers on a SDF base, and others. Among the 100 or so people gathered at the meeting, the focus of attention was on speeches made by two SDF members currently assigned to Camp Ichigaya of the Ground SDF.

Those making speeches were a lance corporal in his twenties and a sergeant second class in his thirties. In their speeches they made statements like the following: "If it comes to the point where overseas deployments occur, let us initiate a campaign to refuse these orders." "No one enlisted because he likes war. Under the terms of the UN Peace Cooperation Bill, we can be dispatched carrying light weapons, but we will not fire them. Are SDF personnel to be sent to die?"

The rally included the initiation of a campaign to refuse to pay taxes on that portion involving military expenditures, since current Japanese military preparations violate the Constitution. According to Mr. Konishi, a "Soldiers Committee" has been organized within Camp Ichigaya, which will continue activities such as demanding democratization in the military and campaigning against war.

Domestic Affairs

Defense Academy Reports Fewer Applicants

WA1911O230 Tokyo ASAHI SHIMBUN in Japanese 5 Nov 90 Morning Edition p 30—FOR OFFICIAL USE ONLY

[Text] The first examination to select students for admittance to the Defense Academy (located in Yokosuka, Kanagawa Prefecture) next spring was held on 3-4 November at 123 locations throughout the country, including the academy itself and Camp Ichigaya of the Ground Self-Defense Forces (in Tokyo). According to statistics compiled by the Defense Agency, this year there were 8,689 applicants for the 500 allocated positions. This is 11 percent lower than last year, or a drop of 1,114 applicants. It also appears that the number of applicants actually taking the examination was 400-500 lower than the above figure.

The Ground Staff Office Recruiting Division, which is in charge of recruitment, said: "The rigors of assembling the candidates is on par with average years. We do not know if talk about dispatching the Self-Defense Forces [SDF] overseas had any effect or not." For three years in a row the Defense Academy has failed to fill its authorized positions. Right after the JFY1992 entrance examination reforms were finalized, the UN Peace Cooperation Bill with the overseas dispatch of the SDF as its main provision was proposed in the Diet. There is concern over the effect this had on the examinees.

* Two Papers Interview Eiji Suzuki on Reform

* Need for Crisis Management

912B0040A Tokyo YOMIURI SHIMBUN in Japanese 1 Nov 90 p 2—FOR OFFICIAL USE ONLY

[YOMIURI Interview with Eiji Suzuki, Chairman of the Third Administrative Reform Council; interviewer not identified; place and date not given]

[Text] [YOMIURI] What are the goals of the Third Administrative Reform Council?

[Chairman Suzuki] "Practical reforms." This is not the time to be talking about opposing an itemized discussion or endorsing an overall outline. The important thing is that we pragmatically resolve the issues of creating an affluent lifestyle and what direction to take in the international community, one at a time.

[YOMIURI] How will you cut through political egos and the wall of the bureaucratic system?

[Suzuki] The idea that "the goverment's gain is the country's loss" should be a factor. We want to consider prescriptions for a cure, not only in superficial forms, such as personnel changes in each ministry and agency, but a specific search for the impediments that splinter an administration.

[YOMIURI] What things will you ask the government to do in the way of administrative reform?

[Suzuki] It will not do at all for us to put everything we've got into a proposal for administrative reform if the government lacks the desire to make those reforms. We will come up with practical proposals so we would certainly like the government to carry them out. To accomplish that we would like the government to have an international vision of Japan viewed from a longer term perspective.

[YOMIURI] With the goal of "financial reconstruction" having been accomplished for the most part, what will be the central theme of the Third Administrative Reform Council?

[Suzuki] One central theme will be a shift from devotion to productivity above all else, to a focus on lifestyle. I would like to see the consumer speak out more. Another theme will be finding a way for the administration to fulfill Japan's international obligations.

[YOMIURI] What would you depict as "international obligations"?

[Suzuki] I am concerned that Japan will become the world's lone wolf. If other countries begin to think that "Japan is not one of us" because of what has happened with the latest Persian Gulf crisis, then it will be a crisis for Japan. "Japan as part of the world" is not an abstract argument.

[YOMIURI] What do you think of the UN Peace Cooperation Bill, from the perspective of Japan's international obligation?

[Suzuki] Debate in the Diet was marked by nothing but arguments over legal interpretations. It is likely that regional conflicts such as the Gulf crisis will occur again in the future with the relative decline in influence of the two superpowers, the Soviet Union and the United States. While other countries seriously consider developments in the world and ways to preserve safety and security, Japan doesn't discuss those things; we only make emotional arguments about "not sending our children to the battlefield," and say that we "must not" and that it is "impossible" solely because of legal interpretations. Because Japan purchases 70 percent of its oil from the Middle East, we should think of ways to preserve peace in that region. This is not an aid policy, but a policy for making a minimal contribution. I hope that those concerned will be aware of this. It is a big mistake to think that we can leave these things to someone else to take care of and just go on developing our economy.

[YOMIURI] Assuming a situation such as the one we are in now, what are your thoughts on a political system and administrative mechanisms when studied from the perspective of "an administration that can fulfill its international obligation"?

[Suzuki] By all means, this must be one of the matters that we study. There was reportedly no crisis management system at all at the time of this latest crisis. I wonder if it is good to have the attitude that the Diet displayed while considering the UN Peace Cooperation Bill, that it was entirely useless.

[YOMIURI] There are numerous discussions in the Diet over a way to deal with the Middle East over the short term, but what about a permanent system to deal with the region?

[Suzuki] It is not enough to think that all we have to do is solve the Middle East issue. This is at the head of a long trail. There are questions that have not yet been answered, such as how to establish a UN force. For now, we will sort out the things that we can deal with, and study them in stages with a long-reaching perspective.

[YOMIURI] You touch on the latest round of multilateral trade negotiations (the Uruguay Round) in the written statement of your views; is the rice issue on your mind?

[Suzuki] I am saying that we will find solutions to areas where action cannot be taken due to political and administrative obstructions that are tied up in vested interests. It is very annoying to hear the various reports that mention only rice.

[YOMIURI] The unification of domestic politics and foreign diplomacy is being emphasized. How will the administrative system respond?

[Suzuki] Domestic politics and foreign diplomacy go arm in arm. It is unwise to say that Japan alone should have a special system. We must internationalize administrative procedures by eliminating improprieties and increasing transparency, so that they do not appear as obstacles when viewed by other countries. Bringing administrative procedures in line with the rest of the world and making them transparent will be a big challenge.

* New Directions

912B0040B Tokyo ASAHI SHIMBUN in Japanese 2 Nov 90 p 2—FOR OFFICIAL USE ONLY

[ASAHI Interview with Administrative Reform Chairman Eiji Suzuki; interviewer not identified; place and date not given]

[Text] [ASAHI] This is the Third Administrative Reform Council. How would you rank it?

[Suzuki] Nine years have passed since the special research on land and space for the purpose of financial reconstruction without increasing taxes. We must create an affluent, comfortable lifestyle, and figure out what kind of existence Japan will have in the international community. In the history of administrative reform, there are things that have been pointed out but have not been carried out, and some things left half done, so we will do some cleaning up in that area. We want to aim for practical administrative reforms.

Converting to a Lifestyle Orientation

[ASAHI] What is your image of "affluence?"

[Suzuki] True affluence is probably a lifestyle with the time to leisurely read and ponder things. National policy should be directed from a production orientation to a lifestyle orientation. This is probably not an issue that the Administrative Reform Council will deal with directly, but I think we must consider it once in a while.

The source of affluence is in the home. In a home where free time is to be spent, space is important. This is something that cannot be expected in big cities where land prices are soaring. We must use brute force to destroy the land-price myth.

[ASAHI] Is it possible to bring down land prices?

[Suzuki] Why is it that the government cannot cut in half the cost of land that has increased several times over? There is a way to cut land prices roughly in half without causing an economic panic. It would not mean some profiting while others sacrificed, the pain would be equally divided.

[ASAHI] It seems that the opening of agricultural markets might even be targeted for study.

[Suzuki] A settlement on rice will emerge from the Uruguay Round (the latest round of multilateral trade negotiations) in December. We probably ought to see how the government and LDP [Liberal Democratic Party] react, and what they have to say at that time. Guidelines on independent agriculture and rice will be adopted when they ought to be. Nothing can be sacred.

International Contributions and Cooperation

[ASAHI] Where will the council begin its work?

[Suzuki] The prime minister's orders were to work on the problem of ensuring fairness and transparency in administrative procedures. It is said that Japan's administration tends to be unfair; even businessmen want this point corrected.

[ASAHI] What is behind the idea of Japan as a member of the International community?

[Suzuki] Japanese businessmen are, for the most part, enthusiastic and healthy. There are, however, claims about self serving economic actions, in other words Japanese heterogeneity. If those in the international community were to turn down connections with Japan, that would be the end of it. International contributions and cooperation are necessary.

[ASAHI] What about the government's response to the crisis in the Middle East?

[Suzuki] The administration certainly exhibited disgraceful behavior, running this way and that, but if you are wondering whether the ruling party has some sort of useful counterproposal, it is doubtful. The discussion about how to go about establishing a system that will guarantee international security is a dynamic one. Japan should not be exclusively on the side of the United States, but should have its own, independent opinions. There are no plans to discuss this immediately in the Administrative Reform Council, but the nation as a whole is feeling a sense of crisis.

Submitting a Report to Prime Minister Kaifu

[ASAHI] There was not complete harmony in the business world over your selection as chairman.

[Suzuki] I beg your pardon if our administrative reforms are no good because they are hard on the business world. Would an administrative reform council composed of people who were influenced in that way be able to make administrative changes? I was not made chairman because I wanted to be, and I have not said anything wrong.

[ASAHI] What kind of leader do you see in Prime Minister Kaifu?

[Suzuki] I would have liked to see better planned timing for the UN Peace Cooperation Bill. I'm not saying that the prime minister was not guilty of mismanagement, but he was in a difficult position under pressure from President Bush.

The members of the Administrative Reform Council were appointed by the prime minister (he is the one with the appointive powers), so I suspect that whatever becomes of Prime Minister Kaifu, the instructions he has given will remain. I expect, however, that when the time comes for a report there will be a different prime minister.

* Effects of Election Reform on JSP Noted

912B0003A Tokyo TOKYO SHIMBUN in Japanese 17 Sep 90 p 2—FOR OFFICIAL USE ONLY

[Text] "The Japan Socialist Party [JSP] is again trying to choose the path of a perennial minority party."

The person deploring this was a member of the 8th Election System Investigation Council. Despite the fact that the Election System Council submitted a report on a parallel small electoral district and proportional representation system last April regarding the House of Representatives election system, the JSP has just been flatly opposed to it without trying to put together a counterproposal at all.

Inherently, election system reforms should present a chance for a perennial minority party to change its status, but JSP leaders assert that "it is strange to make possible the alternation of administrations by election system reform." Then they say, "Alternation of regimes is possible even with the current medium electoral district system if each of the minority parties, including the JSP, were experienced in setting up coalition regimes."

However, there is the counterargument that if this were true, why have they not been able to take over the government even once since the 1955 conservative union? Somehow or other, it seems that the JSP is very timid about system reform that would greatly change the status quo.

In any case, the present medium electoral district system is an electoral system that resembles a proportional representation system in which no great changes in the election results will be created even if some failure in policy or political corruption occurs. Even though the Lockheed scandal and Recruit scandal occurred, issues were obscured by "individual election" and the Liberal Democratic Party [LDP] has not fallen below the majority. It can be called the perfect election system for the character of the Japanese who like to operate by consensus without making the issues clear. It probably even can be said that an election system where no sharp changes in the election results occur is to the Japanese liking.

A Socialist-Komeito-Democratic Socialist Coalition Regime Difficult

Speaking sarcastically, it probably can be said that the JSP is the most Japanese political party. Recently, some of the JSP leaders and young Diet members have begun to say that "the West German type of combined small electoral district and proportional representation system is worthy of study." The West German method combines proportional representation elections with small electoral district elections, but there are almost no changes in the election results with the proportional representation system.

Since the percentage of votes won by the LDP was 46.1 percent, there is a strong possibility that their number of Diet seats would have fallen below the majority if the House of Representatives election in February of this year had been conducted with a proportional representation system. The LDP's negativity toward a proportional representation system is because of the danger to a one-party regime.

That being the case, the percentage of votes won by the JSP was no more than 24.4 percent. It would only have been 43.2 percent if the 14.0 percent of the Komeito and 4.8 percent of the Democratic Socialist Party [DSP] were included. It would be difficult to establish a JSP-Komeito-DSP coalition government with that.

The possibility is stronger for the creation of a LDP-Komeito-DSP coalition government centering on the LDP. Viewed in terms of policy, the distance between the LDP and both the Komeito and DSP is closer than the distance between the JSP and both parties. An LDP-Komeito-DSP coalition also is taking root viewing the local assembly situation.

Even if the minority parties united in advocating the West German type of combined small electoral district and proportional representation system and the LDP reluctantly accepted it, the possibility is strong that the coalition government that probably would be created as the result of a general election would be an LDP-Komeito-DSP coalition, not a JSP-Komeito-DSP. This would be no improvement in the situation for the JSP.

So, what would be the best election scenario for the JSP? Wouldn't it be a resolution to accept the parallel small electoral district and proportional representation system with the feeling of literally getting away from a system that promotes stagnation?

Result of a Reverse Proposal for a Parallel System

Of course, that does not mean unconditional acceptance of a parallel system. The report of the Election System Council has a ratio of 6 to 4 with the set number for small electoral district elections at 301 people and the set number for proportional representation elections at 200 people. What about a reverse proposal to the LDP system, with a proposal reversing this ratio to 4 to 6 with 200 people in small electoral district elections and 300 people in proportional representation elections?

Since a parallel system is a two major party principle system, the Komeito and DSP naturally are probably opposed. If the number of proportional representation elections are 300 people, however, both the Komeito and DSP can be assured of a fair number of seats in the proportional elections. By no means can it be called an election system which discards the third party and lower.

Moreover, small electoral districts set at 200 persons will be virtually a confrontation of two parties, the LDP and JSP. In the general election directly after reform of the system, there may be some danger of a crushing defeat for the JSP but if a second and third Recruit scandal occurs, the possibility will appear for a crushing defeat of the LDP in the small electoral districts and the birth of a JSP administration. Wouldn't they be able to achieve an administration faster this way than by aiming at a chance for one under the current electoral system?

A sense of tension will be created in politics if the possibility appears for an alternation of administrations due to election system reforms. Since the LDP also fears suffering serious retaliation from the people if they continue to be faced with scandals and corrupt politics, they naturally will straighten themselves out.

There is no sense of tension in politics under the political system like it is now where the administration does not change even if bribery occurs, and it is difficult to cut off the roots of corrupt politics. If the practice continues unnoticed of obscuring political responsibility in bribery cases under a medium electoral district system, feelings of distrust and resignation toward democratic government will be amplified among the people. A distrust of democracy is most frightening.

Awareness and Responsibility Toward Democracy

Is the JSP aware of this fact? The JSP is free to choose the path of a perennial minority party, but shouldn't they have a little more awareness and responsibility toward democracy? Isn't there a social responsibility to be resolved to capture the government and make a real effort in this direction?

It is easy to pursue LDP responsibility for political corruption. It is simple to tie the reason for not winning an election to the financial power makeup of the LDP under the medium electoral district system. However, that responsibility should not be left only to the LDP when the foundation of democratic government has been shaken.

Changes in Keidanren Personnel Appointments Noted

912A0020A Tokyo SHUKAN JIJI in Japanese 13 Oct 90 pp 112-113—FOR OFFICIAL USE ONLY

["Financial World Inside" column by Ichiro Chiyoda]

[Text] Keidanren's chairman, Eishiro Saito, is once again the focus of attention. Since the four-man committee (Chairman Saito) to "review the Keidanren's general management problems" such as the question regarding terms of office, was able to lay down a tentative "bylaw," rumors have been floating around speculating on his "voluntary step down as early as by the end of this year." The speculation assumes abdication of the position to the senior vice chairman, Gaishi Hiraiwa, chairman of Tokyo Power Company. Indeed, the "four-man committee" review is closely related to Chairman Saito's action. However, if his retirement becomes fact, it would appear to be the result of a "secret agreement" which has been reported since last March as described in the scenario....

Chairman Saito of the Keidanren has been visiting the united Germany and Poland since 4 October 1990 as the head of a business mission to East Europe. Chairman of the Board of Trustees Takashi Ishihara of the Japan Committee for Economic Development is planning to join the group later. The mission is organized as "an all-star mission of financiers" which include Vice Chairmen Shoichi Sanami, Tokio Nagayama, Ryoichi Kawai, and Shoichi Toyoda in addition to Hiraiwa.

The mission was sent to Eastern Europe at a strong request of Chairman Saito. It partially reflects the fact that Chairman Saito himself has served as the chairman of the Japan-East German economic committee for a long time and is strongly committed to Eastern Europe and East Germany. He has backed such an initiative since the beginning of this year, "I would like to demonstrate that the Japanese economic circles will assist democratization in Eastern Europe."

It means embodiment of the idea of "the Keidanren contributing to the world community." His goal has been to implement this plan at the earliest opportunity, but there have been set-backs, again and again, due to the changing political situations in East European nations. The sending of this mission was on the agenda when Saito was elected for the third time to the chairmanship in May of this year.

Consequently, the mission to Eastern Europe will be closely intertwined with the chairmanship of the Keidanren and further to the tenure of Chairman Saito.

On the other hand, the four-man committee's review has had a great impact on the personnel affairs. At the officer's election at the general meeting held in May, not only was the chairman selected but also three new vice chairmen were selected, President Toyoda of Toyota Motor Corporation, Chairman Yasutaro Iida of Mitsubishi Heavy Industries, and President Yutaka Saito of Nippon Steel. Because these new men are from the same firms as the former vice chairmen whose seats they took, some people criticize this personnel arrangement as "patrimony."

Considering this background, the four-man committee was initiated to "draft a bylaw regarding the criteria for selecting a chairman, a vice chairman, and a committee chairman; the limit to the number of terms served in responsible posts, etc. The four-man committee was named because it is composed of four vice chairmen, Hiraiwa, consultant Takuji Matsuzawa to Fuji Bank, consultant Toshikuni Yahiro to Mitsui & Co., consultant Shoichi Saba to Toshiba.

The subject of the review itself is intriguing and the history of its establishment is also complicated. The initial arrangement was: (1) the chairman of the four-man committee was senior Vice Chairman Hiraiwa, (2) an invitation would be sent to Chairman Saito for each committee meeting. However, when the first meeting was held in June, the chairman's post was eliminated and the operation of the committee was revised, "Chairman Saito convenes and attends the meeting."

If this is interpreted correctly, the initial proposal was meant to have Hiraiwa as the person responsible for preparing the draft bylaw, independent of Chairman Saito. After the revision, Chainman Saito would take the initiative and lead the drafting of the bylaw. In other words, it was initially intended that Chairman Saito would leave the four vice chairman to consider the Keidanren's future operational approach, and, furthermore, he would appoint Hiraiwa, the leading candidate for the "next chairman" as the person in charge. In reality, Chairman Saito has been significantly involved in the process.

The reason for this is clear when one considers that the four-man committee is concerned with the selection process, and Hiraiwa is expected to be the next chairman.

The details of the "bylaw" drafted by the four-man committee will not be announced, they say, because of their sensitive nature. However, the finalized content provides for: (1) an age ceiling of 74 for a vice chairman, (2) tenure of the vice chairman to be up to two terms and four years, etc. However, the immediate application will cause some turbulence, and transitional measures are being considered.

Whatever the contents are, the four-man committee reached a conclusion and a bylaw was drafted, so a framework seems to be set for future selection of the Keidanren's executive officers. Chairman Saito, upon his third term selection said, "I will review the Keidanren's operation." He gave instructions for the setting up of a four-man committee, and, he, himself, set the date for submission of the drafted bylaw at the "beginning of the fall."

Subsequently, the conclusion reached by the four-man committee is linked to Chairman Saito's retirement. Furthermore, the previously mentioned "secret agreement" for the relinquishing of his post during his term is believed by financial circles to be true, and accelerates the speculation.

Among leaders of the financial circles, we have started to hear loud voices since the spring of this year: "We are not sure if Saito will serve out his term," "He will probably step down with grace in May of next year." Also, some people point out that Chairman Saito himself negotiated "retirement" before accepting a new full term when he discussed it with Hiraiwa and financial leaders. Moreover, Chairman Eiji Suzuki of the Japan Federation of Employers' Associations will retire next spring. Suzuki seems to have plans to hand down his post to President Kenzo Nagano of Mitsubishi Kinzoku, the same Mitsubishi group company as his own, who was given to the rank of vice chairman of the federation at the general meeting in the spring of this year. Also, going along with the trend of replacing members of the older generation, Chairman Ishihara of the Japan Committee for Economic Development will also give way to his juniors at the reelection next spring.

There is a school of thought which points out that it is better to resolve the personnel problem of the chairman of Keidanren at least one year earlier, by May's general session next year.

However, concerns may be raised that proceeding in accordance with these scenarios may result in exposing the "secret agreement," damaging the spirit of the "bylaw" supposedly drafted to correct the cloudy situation around personnel and clarify the Keidanren's operation. If that should be the case, it may be possible for uncertainty to cloud the new system when it is installed.

On the other hand, aside from this personnel bargaining, there are plenty of issues which the champion of Japanese economic circles, the Keidanren, must challenge. There are many causes for which the Keidanren should take action, such as, realization of a "new economic democracy" which seeks to find a new business approach, lobbying for policy matters like solutions to the land problem, political reform, and role of Japan in international society. Building a system to cope with these issues and to take a leadership role are critical.

Chairman Saito was appointed for the third time in May of this year. He has started toward the completion of another two-year term. Chairman Saito saw with his own eyes the historical turning point of the unification of Germany, and he has discussed with leaders of countries concerned the role of Japan's economic circles in the rebuilding of Eastern Europe. Will he question his own retirement as he breaths the air of Europe?

* Income, Disbursement of LDP Factions Reported

* Income by Factions

902B0259A Tokyo YOMIURI SHIMBUN in Japanese 14 Sep 90 p 2—FOR OFFICIAL USE ONLY

[Text] The total income of the LDP's [Liberal Democratic Party] five factions was approximately Y5.5 billion, which is 14 percent less than last year's income of Y6.4 billion. Irrespective of the fact that during the year, an Upper House election had been held in the summer and "campaign preparations" were pursued for the Lower House election projected for the next year, the principal reason for this substantial decrease is the voluntary withdrawal of fund raising gatherings that were sponsored by the factions. Although successively topping the other factions, even the Abe faction had a reduced income of approximately Y1.4 billion, which is approximately Y400 million less than last year's income. In the midst of this sort of strained finances, the leaders and ranking members of the various factions were observed being engaged in gathering contributions, furnishing funds to affiliated dietmen and freshmen candidates, and planning to expand their influence.

Table 1. Income of The LDP's Five Major Factions (Unit of Y10,000. Sums of Y1,000 and less were dropped)

Faction	1988 (net income)	1989 (net income)
Takeshita	83,277	105,300
Abe	180,230	138,736
Miyazawa	144,042	96,312
Nakasone	136,169	119,617
Komoto	96,419	89,292

In order to make up for the Y900 million, which had been income derived from fund-raising gatherings last year, Abe contributed Y600 million and rounded up Y300 million from private industry. And because Abe is extremely conscious of the post-Kaifu era, he has been supporting the large number of 28 freshmen candidates for the Lower House election. He divided the sum of Y760 million as midsummer and year-end allowances for the freshmen candidates and affiliated dietmen, and his net disbursement, including the carryover funds, is approximately Y1.8 billion, which is the highest among the factions.

Despite the drop caused by the cessation of fund-raising gatherings, a comparison shows that the Takeshita faction is the only one among the five factions with an increase in income, of 26 percent. Although Takeshita had served as prime minister for the first half of the year and was in the midst of leaving the faction during the latter half of the year, his contribution fund exceeded Y300 million, and because this sum is far greater than the mere Y30 million accountable to Shin Kanemaru, president of the faction, Takeshita showed his stature as the de facto leader of the faction. The total amount of the faction's midyear and year-end allowances, in comparison, is about one-half of that of the Abe and Miyazawa factions. Its net disbursement of Y1 billion is the same as the Komoto faction, and it carried over the large sum of Y1.9 billion for the next year.

The Miyazawa faction disbursed Y500 million from the carry-over funds of the previous year and its net disbursement of Y1.5 billion was the second highest among the factions. Besides disbursing the huge sum of Y70 million for its candidates in the Upper House election, the faction distributed an average of Y10 million during the end of the year to its members, ranging all the way from its freshmen candidates in the Lower House election up to the dietmen who had been elected for five terms, and this disbursement of huge allowances to a wide gamut of personnel was conspicuously noted.

The income of the Nakasone faction totaled Y1.19 billion, which was 12 percent less than the previous year. But unlike the other factions, the income of this faction is reported to include the Y500 million granted by the LDP, and therefore, if this sum is excluded, the faction's income would drop to Y690 million, which is roughly one-half of the income of the previous year. It was apparent that its financial situation was considerably difficult.

On the other hand, the Komoto faction is aiming to emerge from being a minority faction by engaging in such activities as disbursing Y40 million annually to nurture freshmen candidates focused on the Lower House election. And by donating Y1 million to the Nakasone faction's fund-raising gathering in November, it served notice that it intends to become an LDP presidential faction.

LDP Contributed Y2.4 Billion To Support Its Various Factions

From the written report of the political funds income, which was publicly released on 13 September, it became evident that in late 1989 the LDP had distributed the total sum of Y2.42 billion to its various factions under the pretext of "outlay for organizational operations." However, none of the factions elucidated as to how the money was spent.

The money was disbursed on 8 December, which was about two months before the general election was to be held. The breakdown of disbursements was Y620 million to the Takeshita faction, considered to be the largest faction; Y500 million each to the Abe, Miyazawa and Nakasone factions; Y200 million to the Komoto faction and Y100 million to the Nikaido group.

On the same day, the LDP received Y5 billion as a bank loan and this action is interpreted to mean that with this loan the party supported the various factions which were seriously affected with the lack of funds for the general election on account of such actions as the voluntary withdrawal of fund-raising gatherings.

* Post-Kaifu Power Struggle

Tokyo YOMIURI SHIMBUN in Japanese
14 Sep 90 p 3—FOR OFFICIAL USE ONLY

[Text] Although a little over a year has passed since Prime Minister Kaifu (LDP president) assumed office, the political situation is overtly so tranquil as to be even described as "perfectly still." However, underneath the calm surface within the LDP, the influential men and new leaders, who are poised for the "post-Kaifu" leadership, are each strengthening their competitiveness. One of the barometers for power is the fund-raising strength, and a review of the written report on political funds income during 1989, which was publicly released on the 13th, shows definitely that factional leaders who were born during the Taisho era, such as former Secretary General Shintaro Abe at the top, former Deputy Prime Minister Kiichi Miyazawa and former chief of the LDP Policy Research Council Michio Watanabe, appear to overwhelm the group of new influential men, such as Finance Minister Ryutaro Hashimoto and Ichiro Ozawa, who were born in the Showa era.

Table 2. Funds Held by LDP Influential Men and New Leaders Who Are Poised for the Post-Kaifu Era; Note: Unit is Y10,000. Sums of Y1,000 and less were dropped. Overlapping of funds transferred between political organizations of the same politician was omitted.

Name of Politician (position omitted)	Amount of Income	
	1988	1989
Shintaro Abe	98,462	99,191
Kiichi Miyazawa	66,107	78,689
Michio Watanabe	74,077	61,774
Toshio Yamaguchi	48,245	45,959
Ryutaro Hashimoto	31,287	45,163
Yoshiro Mori	45,263	44,827
Mutsuki Kato	36,071	30,118
Koichi Kato	16,446	17,822
Yohei Kono	23,036	16,443
Tsutomu Hada	19,362	16,121
Hiroshi Mitsuzuka	20,654	13,350
Ichiro Ozawa	5,620	6,962

The year 1989 was one of rapid changes for Abe who, while serving as the secretary general, had been considered to be the most likely successor to Prime Minister Takeshita (then) and who, during the period of his protracted hospitalization and convalescense, saw the resignation of Prime Minister Takeshita and the birth of Prime Ministers Uno and Kaifu. According to the above income report, Abe collected approximately Y1 billion (amounts overlapping between political organizations of the same politician were omitted) in 1989, and during the year he disbursed Y900 million, which exceeded last year's amount by Y350 million, as election funds to affiliated dietmen and associate freshmen candidates. Abe's long cherished desire for political power was deduced from his actions, such as disbursing Y5 million to each of his key candidates in October, a practice which was not observed in the other factions and which was separate from his midyear and year-end allowances, and aiming for an enlarged force by ignoring the criticism of "inflated politics."

Compared to last year, Miyazawa's income was increased by Y100 million, and by increasing his contribution to the faction (Kochikai) by Y200 million, he made a show of power as an influential leader. He liberally doled out to the mainstay dietmen and down to even the freshmen candidates of the Lower House election a year-end allowance of Y500 million, which was more than double that disbursed last year.

On the other hand, Watanabe's case is slightly different from that of Abe and Miyazawa in that, having headed the policy group, called the Onchikai, he is aiming to subrogate the Nakasone faction, calling it the Watanabe faction. Watanabe disbursed a one time allowance of Y1 million to associate dietmen and readily offered allowances to the nurturing freshmen candidates. And he dutifully contributed the sum of Y70 million to the faction.

Having directed the Upper House election as the LDP secretary general and having strengthened his position as a new leader, Hashimoto has steadily increased his fund-raising capability. Even from the aspect of disbursements, Hashimoto supported the Takeshita faction candidate in the Upper House election of the Okayama electoral district, which falls in Hashimoto's home ground prefecture, with Y16 million, and even in the June municipal council elections, he donated Y100,000 to each of the 13 candidates. As a result, the Takeshita faction dietmen expressed surprise that "Hashimoto, who had been reputed to be lukewarm in offering financial support, has changed to become aggressive."

Ozawa is a contrast to Hashimoto. Based on the figure of Y69 million contained in the above income report, Ozawa's income is the smallest among the new leaders, and he is not conspicuous because of his extreme conservatism. The observation, as expressed by a prominent member of the Takeshita faction, is that, "Up to now, Ozawa has not nationally expanded his independent fund-raising organization because he was endeavoring to increase the faction's fund- raising strength. But recently, he has begun to show his enthusiastic concern, with the future in mind, by newly establishing his private office in a building near the Diet.

Economic Affairs

Industrial Leaders Discuss Future of Economy

912A0012A Tokyo NIHON KEIZAI SHIMBUN in Japanese 3-7 Oct 90—FOR OFFICIAL USE ONLY

[Interviews with various company presidents, managing directors, et al. by NIHON KEIZAI SHIMBUN; place and date not given]

[3 Oct 90 p 10]

[Text] [Box item] Dark clouds have begun to drift over the path of the industrial boom, which has continued to be favorable. This cloudiness has threatened even automobile sales, which had been the symbol of the big boom. The effects of the triple punch, i.e. the high cost of crude oil, high interest rates and stock price decline, have slowly begun to emerge. Will the turning point of the boom occur by the end of the year? Representatives of eight major industries, who emphasize their wariness, were interviewed on the direction the boom will take hereafter. [end box]

Automobile Industry: Poor Cycle From Consumer Reluctance Feared

[Interview with Atsushi Muramatsu, vice president of Nissan Motor Co.]

[NIHON KEIZAI SHIMBUN] The number of new cars (excluding light vehicles) registered in September increased by 0.3 percent over the same month, last year, which is indicative of a small growth. When compared with the number of new cars registered in August, which increased by 11.5 percent over the same month, last year, the September performance is a tremendous drop in growth. Is there a feeling of having reached the peak in the sale of domestic automobiles, which had served as the forerunner of the domestic consumption boom?

[Muramatsu] As in the past, a high level has been maintained in the procurement of orders, production and sales, but it is true that the momentum which had held up to then disappeared after September. But with the accumulation from the growth of the first half of the fiscal year, I believe that the number of four-wheeled cars sold by the entire industry during FY90 will reach the level of 7.8 million cars, as initially predicted by our company. The figures for the next fiscal year will just about remain on the same level as that for this fiscal year.

[NIHON KEIZAI SHIMBUN] How do you assess the effects of the Persian Gulf crisis?

[Muramatsu] In case of war, a serious blow will be dealt, but if the crisis is resolved within the year, the boom will continue to expand. Problems will occur in the event the confrontation between Iraq and the United States is protracted. The price of gasoline and materials will probably undergo a transition to a higher level. However, a slight increase in prices can be absorbed by the recent strong yen move.

[NIHON KEIZAI SHIMBUN] What about the rising interest rate, which is one of the elements for concern?

[Muramatsu] No doubt the present interest rate of 7 percent is indeed high. If this high interest rate should continue, the investment of companies in facilities will be affected by the first of next year. It is strongly held that the boom enjoyed over the past few years has been supported by flourishing individual consumption. Much time will be needed before the rising interest rate can penetrate from the high level of business enterprises to the low level of individual consumption.

[NIHON KEIZAI SHIMBUN] Isn't the sluggishness of the U.S. economy cause for worry?

[Muramatsu] Americans are generally more sensitive to gas price increases than the Japanese. From the standpoint of the business cycle, automobile sales in the United States basically at this period is supposed to be on the uprise, but it is still sluggish. Perhaps they may want to lower interest rates to stimulate the economy, but this is not possible because of the fear of inflation.

[NIHON KEIZAI SHIMBUN] How would you collectively apprise the three elements of insecurity?

[Muramatsu] My deepest concern is whether or not the image of the Gulf crisis or the high interest rate would translate into an austere mood in the consumer. If the momentum of individual consumption, which had supported the boom up to now, is lost, then business performances will deteriorate and even the investment of facilities will fall in an oppressively bad cycle. In summary, the boom expansion period will probably not break the record (57 months) of the last and longest "Izanagi boom" [that lasted from 1966 to 1970].

Machinery: Apprehension With NC Equipment; Emphasis on Robots

[Interview with Seiuemon Inaba, president of Fanuc Robot Mfg. Co.]

[NIHON KEIZAI SHIMBUN] In October, you plan to begin the construction of a robot plant with a Y10 billion investment and you plan to triple your robot production. Is the demand for robots that strong?

[Inaba] There is no cycle in the demand for robots. The demand increases steadily. This situation is the same in the United States and even in Europe.

[NIHON KEIZAI SHIMBUN] The investment of facilities in this fiscal year is Y34 billion, which is a 30 percent increase over the last fiscal year. Do you plan to invest aggressivly even in the future?

[Inaba] Since the present organization will be maintained by one new robot plant, we do not expect to expand domestically for some time to come. Since our company invests totally with our own funds, we do not have any problems raising funds, but it is true that we are apprehensive about the slack of procurement orders for NC equipment for machine tools. Negotiations with machine tool manufacturers are really not satisfactory. Although there is a six-month backlog from the time of the procurement order, we are investigating what constitutes the actual demands.

NC equipment is greatly affected by the trends in the machine tool market. In that respect, robots are the key to labor-saving investments and therefore, they are not particularly affected by the boom. The demand for robots is strong even in the United States, which is affected by a downward trend in business, but there is some concern about the trend for NC demand.

[NIHON KEIZAI SHIMBUN] What will be the performance of the company in its entirety? It appears that sales for the upper half of this fiscal year have recorded an increase of 10 percent over the same period, last year.

[Inaba] I must say that the performance of the second half is blurred. It might remain the same as the first half. However, when a certain phase turns out badly, the pattern usually is one whereby the growth of the other phases compensates for the loss, and therefore, we expect a return comparable to the first half, plus an added percentage.

[NIHON KEIZAI SHIMBUN] Is it true that you are thinking of emphasizing robots as a new center in your operations?

[Inaba] Robots have tremendous possibilities in demand development, such as for welding and assembling. Our company developed a system that can perform an integrated control of the machine tools and robots with one piece of NC equipment. Competition for this sort of robot development will be intensified hereafter. From the standpoint of technological development, there is a five-year cycle and demand has been expanded with each cycle.

[4 Oct 90 p 10]

[Text] **Steel Industry: No Curtailment in Investments for Facilities**

[Interview with Yoshiro Sasaki, director of Nippon Steel Corporation]

[NIHON KEIZAI SHIMBUN] MITI's [Ministry of International Trade and Industry] supply and demand forecast for crude steel production during the period October to December is 28.35 million tons or an increase by 2.7 percent over the previous period, last year. It appears that the pace for the entire period during this fiscal year is 110 million tons, but aren't you overly optimistic in your demand prospect?

[Sasaki] The fact is we are really not establishing a superficially optimistic forecast. We are closely scrutinizing the information furnished by the various areas in marketing and then deriving the figures. The actual demand in the industrial world, whether it be construction, automobile, shipbuilding or electrical machinery, is still strong. As for the demand for steel, our observation is that the present pace will not change for the remaining six months.

[NIHON KEIZAI SHIMBUN] The high interest rate, the stock price drop and high price of crude oil are moving at a fast pace, but what are your fears on the heavy effects of these elements?

[Sasaki] Of course, the effects will be felt. Disregarding personal consumption, these elements will definitely have an adverse effect on the investment of facilities in industries. In particular, high interest rates will cause the procurement of funds to be difficult, causing a devastating result. However, this is not related to any move to curtail or revise any immediate investment of facilities. This sort of movement will probably appear in the plans for the next fiscal year.

[NIHON KEIZAI SHIMBUN] What about the investment of facilities by the steel manufacturers themselves?

[Sasaki] From the standpoint of a conclusion, I don't think the matter will be a negative one. It would be a separate matter if the investment is for additional production, but there is an accumulation of indispensable investments, such as for renovations and labor saving changes. The demand and supply for surface processing steel plates and similar items are still great, depending on the products. Cautious advances can be made.

[NIHON KEIZAI SHIMBUN] Do you hold the view that the boom might take a sudden drop during the next fiscal year?

[Sasaki] Regarding steel, the government's commitment in "Public Investments of Y430 Trillion for a 10-Year Period" will be a basic support and we are not worried about a deep decline. The government is compelled to be involved and this will be reflected in the demand for steel materials.

[NIHON KEIZAI SHIMBUN] With the rise in labor costs and price of materials, it appears that the factor of greater costs will be further added on. What are your intentions concerning raising the price of steel materials?

[Sasaki] It is true that cost increases have affected our earnings. On raising prices, action cannot be instituted by considering only our situation. For the time being, further rationalization will be promoted and total efforts exerted to absorb the costs. The research for concretely increasing prices is something that will eventually follow.

Department Stores: Individual Consumption Firm Until Next Spring

[Interview with Ikuo Okura, director of Takashimaya Department Store]

[NIHON KEIZAI SHIMBUN] Is it true that department store sales were favorable even in the month of September?

[Okura] Although the curse of heavy rains that fell on the last Sunday in September in the Tokyo region was painful, there has been no change in the basic mood that prevailed until August. The sale of fall clothes was slow because of the warm weather in early September, but the sales pace rose from the middle of the month. Even paintings and jewelry have sold as usual; Y300,000 to Y500,000 worth of lithographs have been sold, which is three times more than last year, and the sale of diamonds and pearls is 50 percent more than last year. The base of the entire store in September maintained an added income of two digits.

[NIHON KEIZAI SHIMBUN] Has there been any deterrent effect on property investment from the stock price drop?

[Okura] In all honesty, we were concerned at the time when stock prices dropped in early spring, but property investment decline did not surface at all. To say it in reverse, only a handful of people go shopping because of changes in property investment, and the psychological effect is possibly greater on the general consumer. Consumers today want to maintain their own mode of living and do not want to lower their living standards by curtailing spending. They are probably prudent about impulse buying.

[NIHON KEIZAI SHIMBUN] Changes in the mode of living are reflected in what form of spending?

[Okura] Furniture for a home library, where a middle-aged salaried person can study at home, is sold. In connection with home renovation, million-yen class rugs, high-class curtains and even paintings are sold. Sales of women's briefcases have been eight times more than last year, and with foodstuff, the sale of expensive wine with the label that the "wine is from the grapes of so-and-so's vineyard, picked so many years ago" is brisk. Among the late-at-night city dwellers living alone in condominiums, the boom is in purchasing nocturnal pets like turtles or lizards, instead of dogs and cats which require attention.

[NIHON KEIZAI SHIMBUN] Aside from the individual's livelihood, what happens if the demand from corporations is directly affected by the present high interest rates and stock price decline?

[Okura] As for demand from corporations, the budget is decided at the beginning of the fiscal year and if the budget in the past was Y50 million, the corporation would not engage in the practice of trimming it down to Y30 million. There is the possibility of reducing the number of items, but the normal practice is to raise the unit price. When business is bad, in reverse, some firms will increase their exchange of presents.

[NIHON KEIZAI SHIMBUN] In conclusion, is there no need to worry about individual consumption?

[Okura] There is concern about the Persian Gulf crisis. However, the effect on individual consumption will be the last effect and possibly the least, I believe that a steep decline will not occur until next spring. The labor shortage has necessitated the employment of students and part-time workers, and overall this adds to the family finances and increases consumer expenditures. Of course, from now on all the department stores will probably not experience smooth sailing. I believe that differences among the department stores will occur based on differences in setting up sales sections or in the display of goods.

[5 Oct 90 p 11]

[Text] **Electrical Machinery: Investments for Information Conversion on Solid Base**

[Interview with Joichi Aoi, president of Toshiba Machine Co.]

[NIHON KEIZAI SHIMBUN] The future of the boom has become a sensitive issue. Earlier on, it was said that "everything is fine within the fiscal year," but what do you think?

[Aoi] We were able to come along somehow during the first half, but we do not have that much confidence for the second half. The sudden turn of the Persian Gulf crisis, which was an unexpected state of affairs, obscured the future. What would happen if the price of crude oil rose shockingly high? Although this is the most serious matter to fear, I believe that one of the issues is whether the cost of one barrel will exceed $30.

[NIHON KEIZAI SHIMBUN] Aren't you concerned even about the future of business conditions in the United States?

[Aoi] Things have definitely been obscured a little. Movements in the United States greatly affect various countries, such as Japan, and especially if the computer industry should turn cold,, the concern is on the effect on the semiconductor industry (Japan's). Among the United States, Europe and Asia, the United States is unmistakably the largest market for our country, and a substantial amount of the products produced in Southeast is exported to the U.S. market.

[NIHON KEIZAI SHIMBUN] What about your investment in facilities?

[Aoi] In Japan, our investment in facilities, aimed at such factors as labor shortage countermeasures, information conversion and rationalization, is firm. For instance, the industry's goal of annually producing 100 million tons of steel (crude steel) has not changed. As for our company's investment in facilities, our aim is not to consider any changes for this fiscal year. I do not believe that a big project like facilities investment can be changed that easily. Unless information [technology] is added to management resources, material and money, business operations will not sustain the investment for information conversion, regardless of changes in business conditions over a short period.

[NIHON KEIZAI SHIMBUN] How long will the present large-scale boom continue? Will it be as long as the "Izanagi boom" (57 month period; which would be reached in August 1991)?

[Aoi] There are concerns such as the high price of crude oil and the business conditions in the United States, and there is the basic support for the investment of facilities. The situation is blurred because of the interplay of strong and weak factors, but somehow everything should progress evenly within the year. The future, including surpassing the Izanagi boom record, is uncertain.

Chemical: Key Lies in the Padding of the High Cost of Naptha

[Interview with Shogo Takebayashi, president of Mitsui Petrochemical Industries Co.]

[NIHON KEIZAI SHIMBUN] How do you view the effect of the high cost of crude oil on the boom in general?

[Takebayashi] Up until recently, the general view was that if the Middle East crisis was settled and if the price of crude oil, even if high, would drop below $25 per barrel; in that event, the effect exerted on Japan's economic growth ratio would be an insignificant minus 0.3 point. However, the Middle East crisis is in a stalemate and the price of crude oil has jumped from $30 to $40. The boom outlook has changed to one of caution.

[NIHON KEIZAI SHIMBUN] What about the effect on petrochemical products?

[Takebayashi] Along with electrical power and gas, the petrochemical industry has received a direct blow from the high cost of crude oil. In the case of the petrochemical industry, it is the high cost of naptha, the raw material. If the high price of crude oil is fixed and if the investment of facilities, which has been the driving force of the boom up to now, is confronted with high interest rates and the stock price drop, it would mean that the industry would be doubly affected with the high cost of raw materials and a reduction in demand. By excluding some of the products, including ethylene which is a major raw material, the demand for petrochemical products will basically continue to be in a state of balance. It was strongly held that price was the only problem, but the possibility of affecting even demand has been strengthened.

[NIHON KEIZAI SHIMBUN] What will happen to the price increase of petrochemical products, which has become a realistic issue?

[Takebayashi] Considering that the price of naptha, which is a raw material, will be raised more than Y10,000 per kiloliter, it will mean padding the additional cost to the price of petrochemical products, beginning with ethylene. If the cost of naptha is increased by Y10,000, it will mean that the entire petrochemical industry will have to assume the burden of an increased cost in raw material of close to Y300 billion during the year. The ordinary profit of the entire petrochemical industry is about Y200 billion, and if padding the additional cost on the price of the products cannot be resorted to at all, the industry, with the exception of some companies, will be in the red. The price of naptha might soar even higher over the present price.

[NIHON KEIZAI SHIMBUN] How do you intend to deal with the concern for demand and supply relaxation?

[Takebayashi] The boom will be treated with special attention. The possibility of the demand structure changing from the next fiscal year exists, but I cannot yet fathom whether it will end apprehensively or realistically. As for Mitsui Petrochemical's investments during the second half of FY90, we are considering taking a second look at the end of the year.

[6 Oct 90 p 11]

[Text] **Housing: Status of Company Homes and Investment Properties Blurred**

[Interview with Tokuhiko Suzuki, director of the General Research Institute]

[NIHON KEIZAI SHIMBUN] In September, new housing construction was 143,000 units, which is 0.1 percent less than the number in September of last year. Can you comment on the performance of rental homes which, for the first time in 10 months, is less than the comparable period last year?

[Suzuki] The effects of the rising interest rates is also beginning to be felt. From October, the fluctuating interest rate for home loans was 8.5 percent, the highest level up to now. Because houses can be built with funds at low interest rates from government loan corporations, the demand for homeowners renovating or repurchasing has not been affected that seriously; however, rental homes built for investment purposes are directly affected.

[NIHON KEIZAI SHIMBUN] In the housing industry, various companies appear to be saddled with a large backlog of orders, but has there been any moves, such as cancellations?

[Suzuki] No, I have not heard of such moves. Once a person takes the decisive step to build a home, he will not give it up that simply, even if the interest rate should increase a little. In reverse, the occurrence of any act of cancellation can be interpreted to mean that the economic environment has not deteriorated.

[NIHON KEIZAI SHIMBUN] What is the forecast on the construction of houses hereafter?

[Suzuki] It will follow a slow downward curve during the period from October to December and it will probably drop steeply during the period from January to March 1991. The total of nearly 1.5 million houses in FY90 is a decline when compared to 1.673 million houses in FY89, and the total for the next fiscal year might be around 1.4 million houses.

[NIHON KEIZAI SHIMBUN] Then, does this mean that dark clouds are hovering over the housing industry?

[Suzuki] No such thing. The fact that the transition over the past three years of the number of houses to be constructed, ranging from 1.6 million to 1.7 million, was an extremely high level means that this was an extraordinary period. Even if the annual number is down to about 1.5 million houses, this is still a sufficiently high level, and the industry is not panicking. Even if the market for newly constructed houses should drop to some extent, other outlets, such as the expanding renovation market, can cover the gaps to some extent.

[NIHON KEIZAI SHIMBUN] In the event the new land holding tax should be realized, what are the effects?

[Suzuki] The demand for the construction of company employee houses and investment properties will clearly be affected. In that sense, it will serve as an element to reduce the construction of houses.

[NIHON KEIZAI SHIMBUN] What are your views on the proposition that the introduction of the new land holding tax will create an increase in the supply of land for housing and that it will exert a favorable influence on the housing demand?

[Suzuki] Things do not work out that simply. Japan's land problem is indeed a complex one. I cannot believe that the supply of land for housing will increase so simply.

Travel: Boom Continues With Extension of Leisure Time

[Interview with Isao Matsuhashi, president of the Japan Travel Bureau]

[NIHON KEIZAI SHIMBUN] The number of overseas travelers in August exceeded, for the first time, 1 million for a single month, and the number of 1.093 million travelers was 12.1 percent more than that of the same month, last year. What is your forecast for the immediate future?

[Matsuhashi] The pace achieved thus far will probably continue even beyond autumn. Last year, the number of overseas travelers was 9.66 million, but the forecast for this year is that it will reach about 11 million travelers. Initially, we had figured that this was the level to be achieved in 1992, and so this shows that the demand for traveling is deep-rooted. There are limitations, such as the number of airline passenger seats, but during the next 10 years, the annual increase of the number of overseas travelers will be 7 or 8 percent, and by the year 2,000, the number is expected to reach 20 million people.

[NIHON KEIZAI SHIMBUN] Domestic traveling is also favorable, but the drawing attraction was the International Garden and Greenery Exposition which closed in late September. Any comments?

[Matsuhashi] The success of the Flower Expo, which drew 23 million people, was definitely immense. On this point, this does not mean that the future is not apprehensive. But the fact is that domestic traveling increased in the autumn of last year attributable to the rediscovery of the merits of the domestic sightseeing spots, and growth is fully expected hereafter.

[NIHON KEIZAI SHIMBUN] What are the bases for a long-term continuation of the traveling boom?

[Matsuhashi] First of all, it is probably the extension of vacation time. A big factor is that with the rising standard of living, the people already possess enough spending money. The number of people who have nothing else to buy and who think of spending money on traveling has increased.

Another factor which cannot be overlooked is the aging of society. Those over 65 years of age comprise 12 percent of the population. Their livelihood is stable and they have the time for and the desire to travel.

[NIHON KEIZAI SHIMBUN] Are there negative factors, such as the deterrent effect on property investments caused by the Gulf crisis or the stock price decline?

[Matsuhashi] It would be a separate matter if the price of crude oil should rise further, and if a boom deceleration should be clearly felt, but the effect of these factors on the travel industry is insignificant. From the overall standpoint, the demand for travel to the Middle East area is light, and even if the price of airline tickets increases several percentage points because of the increase in fuel costs, it will not have a significant effect. The people who have lost money from the stock price decline will probably refrain from traveling, but overall, this number is small.

[NIHON KEIZAI SHIMBUN] Aren't there any obstacles to the travel boom?

[Matsuhashi] There are many useless activities that offer no compensation, and a big topic is the improvement of the profit structure. In order to provide a good tour, an investment for information interchange is needed and a reasonable profit is needed to achieve this. An ordinary profit of one percent as a handling charge is desirable.

[7 Oct 90 p 4]

[Text] **Bullish Views: Increase Investment of Facilities by Two Digits**

[Interview with Takuro Ban, survey section chief of The Industrial Bank of Japan, Ltd.]

[NIHON KEIZAI SHIMBUN] How do you assess the moves for facilities investment.

[Ban] A review of the substance of facilities investment shows that a small amount will be expended for a simple increase in capacity, and the central focus is on long-range aspects, such as laborsaving, rationalizing, and research and development. The corporations possess a considerable amount of ready fluidity and it is felt that the enthusiasm for facilities investment will not weaken immediately.

[NIHON KEIZAI SHIMBUN] Because of the difficulty of equity finance (procurement of funds along with the printing of new stocks) resulting from the stock price decline, interest rates are high. Despite this situation, do you think the investment of facilities is sound?

[Ban] The breakdown of ready fluidity has already begun. However, it will not result in a situation of suspending investments. Investment funds will be financed by long-range loans or by printing bonds. The amount for investments of facilities for the entire industrial world during FY90 will increase by two digits over that for FY89. The increasing tempo for 1991 will probably drop because of such factors as a drop in company profits and high interest rates. Still an increase of 7 or 8 percent can be anticipated.

[NIHON KEIZAI SHIMBUN] Won't individual consumption slow down because of deterring effects on property investment?

[Ban] The deterring effect on property investment is a phenomenon affecting only one aspect of consumer spending, and it will probably be limited to such items as luxury cars. I feel that individual consumption in its entirety will not be blunted because of the increased growth in employment and income. In the background of even the 1991 spring offensive is the shortage of labor, and in all probability, there won't be a big drop in the wage hike, when compared with 1990.

[NIHON KEIZAI SHIMBUN] What is your forecast on interest rates?

[Ban] Further tightening up is not necessary and the fact that even tightening up cannot be performed in the actual situation is the realistic issue. The present level is effective in preventing inflation.

[NIHON KEIZAI SHIMBUN] Isn't the recession of U.S. business conditions about to spread to Japan?

[Ban] The industrial structure has changed from reliance on foreign demand, as in the past, to reliance on domestic demand. Whatever happens in the United States no longer reverberates in Japan, for its constitution is sound. Although it is an element which we cannot ignore, it is not a direct issue.

[NIHON KEIZAI SHIMBUN] What is your forecast of the economic growth rate?

[Ban] A deceleration within the fiscal year will probably not occur. The growth of an annual rate of 5 percent is possible for all of FY90. It will probably be slightly under 4 percent for FY91. It might drop down to 2 percent in the event of such dire conditions as a flareup of war from the Gulf crisis and the destruction of Saudi Arabian oil fields.

Cautious Views: Growth Rate From January to March Will Be 3 Percent, Down to First Half

[Interview with Kazuaki Harada, managing director of Sanwa General Research Institute]

[NIHON KEIZAI SHIMBUN] The operational environment of corporations has become more austere with the stock price decline and the high price of crude oil. How will the boom change hereafter?

[Harada] It would not sound odd to say that the present state of the boom is one of smooth sailing. But the finance and stock markets are in a muddled state. The effects will be felt slowly from now until the beginning of next year.

[NIHON KEIZAI SHIMBUN] What are some of the matters of concern?

[Harada] As a consequence of the Gulf crisis, the possibility of the United States entering a recession is great. The developing countries, such as those from Southeast Asia, will have to face the double punch of the deteriorating business conditions in the United States, which is their export market, and the high cost of crude oil. These situations can also affect Japan. It is also feared that trade friction can once again become intensified. The possibility is slim, but corporation leaders must be prepared for a sharp decline of the dollar.

[NIHON KEIZAI SHIMBUN] What is your forecast concerning the crude oil market?

[Harada] If the stalemated situation of the Gulf crisis should continue, the cost of one barrel will probably shift from $30 to $35. In the event of an outbreak of war, the price will be less than $25, providing there is no damage to the oil fields from a short-term decisive battle. On the other hand, if a long-term war rages and the oil fields in Saudi Arabia are damaged, the situation of the price of one barrel rising to $40 will continue. Because restoration of the oil fields will require from one to one and one-half years, the high price of crude oil will be protracted.

[NIHON KEIZAI SHIMBUN] What about the sixth rise of the official interest rate?

[Harada] Up until the steep decline of stocks in late September, I thought there would be a 60 percent possibility, but now it has gone down to 50 percent. However, it is highly unlikely that interest rates will drop within the year.

[NIHON KEIZAI SHIMBUN] Should the high cost of crude oil and high interest rates continue, how will the growth rate be affected?

[Harada] It appears uncertain from January to March of next year. Since the economic growth rate during the first half of FY90 was excellent, the figure of about 4.4 or 4.5 percent can be maintained. However, the fourth quarter from January to March 1991 will drop 3 percent. The drop to around 3 percent in FY91 can be considered.

[NIHON KEIZAI SHIMBUN] What do you think about facilities investment?

[Harada] At the earliest possible time, the leading firms as well as medium and small enterprises will probably begin to slack off in their facilities investment. Over and above the high interest rates, even the amount that can be procured has become reduced. Even the major companies have faced difficulty in the procurement of funds at low cost through the capital market, because of the stock price decline. There are very few investments which yield a profit with an interest rate as low as 8 percent. The relationship of the ratio of cost and expected profits cannot be ignored.

[NIHON KEIZAI SHIMBUN] Is the status of individual consumption, which is considered to be the other leading factor, sound?

[Harada] There is little effect when compared with facilities investment, but to some extent, the deterrent effect of property investment affecting doctors, professionals and self-employed individuals can occur.

Investment Cycle Characteristics, Trends Examined

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[Article by Professor Miyohei Shinohara of Tokyo International University]

[Text] [Boxed item] 1. Before the oil shocks of the 1970's, the medium-term investment cycles in Japan and the United States had followed a pattern of "reverse cycles"—when one went up the other came down, and vice versa, but the pattern changed temporarily to "parallel cycles" due to the two oil shocks. In the 1980's, however, the movement of investment ratios [investment-GNP ratio] has once again reverted to the pattern of "reverse cycles"—it has been on the decline in the United States while on the rise in Japan.

2. These patterns have reconfirmed the occurrence of investment cycles at about 10-year intervals. But in the case of Japan, the peak of 1980 was extremely low, which makes the peaks of 1970 and 1990 stand out more prominently, leading to the discovery of a 20-year cycle of "construction wave." In the United States the investment ratio reached a peak of exceptional height around the year 1980 as a result of a sharp increase in the rate of investment in "structures."

3. Medium-term investment cycles are present in NIES (newly industrialized economic societies) and ASEAN as well; there, the period 1986 through 1990 has turned out to be an upward phase of the cycle, which has helped high growth in those countries. In forecasting the economic outlook, it is indispensable that such medium- and long-term aspects be taken into consideration. [end box]

Reverse Cycles Since 1983

The U.S. economy is said to have had an uninterrupted expansion of business activity for 7 years and 10 months as of September of this year. Viewed in terms of "growth-rate cycle," however, there has been a steady "growth recession" (the process of declining rate of economic growth) from 1988 on. In the United States, the rate of real GNP growth, which was 4.5 percent in 1988, dropped to 2.5 percent in 1989; for the second quarter of 1990 the rate fell by 1.0 percent as compared with the level of the same period the year before. The decline in the second quarter was due, among other things, to a mere 0.9 percent growth of the mining and manufacturing output in the same period.

Moreover, a review of the movement of Japanese and U.S. private-sector fixed investment ratios against their respective GNP brings to the fore several very interesting points from the standpoint of the medium-term investment cycle.

In Japan, over the period 1983 through 1990, the investment ratio has continued to rise sharply (from 14.9 percent in 1983 to 20.8 percent in the second quarter of 1990). In the United States, by contrast, the investment ratio has declined from 12.1 percent in 1981 to 9.5 percent in 1990. During this period, therefore, the investment ratios of the two countries have moved in "reverse cycles," so to speak. There was a time when, as a result of the two oil shocks, the investment ratios in the two countries shifted into "parallel cycles." To wit, from 1976 through 1983 the peaks and valleys in the two countries' investment cycles nearly coincided with one another.

The recent phenomenon of reverse cycles in Japanese and U.S. investment ratios is nothing new. Such "reverse cyclical" contrasts, albiet with some time lags, are evident in the following matchups: Japan in 1955 (valley) versus the United States in 1957 (peak); Japan in 1961 (peak) versus the United States in 1961 (valley); Japan in 1965 (valley) versus the United States in 1966 (peak); and Japan in 1970 (peak) versus the United States in 1971 (valley). During the period of oil shocks the pattern temporarily switched to "parallel cycles" because the oil shocks had the effect of prolonging the downward phase of the Japanese investment cycle while temporarily impeding the upward phase of the investment cycle in the United States.

Thus the investment ratios of the two countries switched to "parallel cycles" during 1975 through 1983; in this connection, two very interesting developments occurred. Both countries reached a peak almost simultaneously about 1980; in the case of Japan, however, the peak of 1980 was markedly lower than the peaks of 1970 and 1990. If for this reason the peak of 1980 is disregarded, what emerges is a 20-year wave (Kuznets cycle) covering the period 1970 through 1990. This is the point number one.

By way of parenthesis, during the period 1983 through 1989 the volume of completed construction works in the mining and manufacturing sector, according to the "General Statistics on Construction," rose dramatically—it increased by 2.5 times.

Point number two is that in the United States the investment ratio surged to a postwar high in 1979-81. For statistical purposes, the private-sector's fixed investment excluding housing is divided into two categories: investment in "structures" and investment in "producers durable equipment." Figuring out the percentage of fixed investment devoted to "structures" in the United States, it was 31.1 percent in 1977 but rose to extraordinary levels of 35.3 percent, 37.5 percent, and 39.1 percent in 1980, 1981, and 1982, respectively. The ratio then turned downward and in 1989 reached 28.5 percent, an unprecedented low. Such a dramatic contrast in rise and sharp decline in the ratio of investment in structures is reflective of the fact that the construction activity in the private industrial sector went through an active period and then cooled off.

Possible Return to Parallel Cycles Due to the Middle East Situation

What is especially worth noting is that it is in fact possible to deduce the presence of the "Kuznets cycle" (long-term cycle of 17-20 years in duration), which exceeds the "Juglar's wave" (medium-term cycle of about 10 years in duration), from the investment ratio's medium-term movement which is generally used for the detection of "Juglar's wave." In Japan the years 1970 and 1990 can be regarded as the peaks in such a cycle while in the United States the year 1980 or thereabout may be viewed as a peak. If so, it leads to the conclusion that there has been a 10-year gap between the peaks in construction waves of these two countries.

The "construction waves" mentioned above do not include housing and public works. My point is that the kind of construction work included in the investment activity of private enterprises seems to be occurring in an undulating pattern of 20-year cycles. As to the question of in what specific forms or manners such construction waves have actually occurred in the United States and Japan, I rather believe it should be a subject for future study.

In addition, another feature of these cycles is that the amplitude in the movement of investment ratio is greater in Japan, where the pace of growth is faster, than in the United States.

In making the foregoing observations I had assumed that the year 1990 would prove to be a peak in Japan's investment ratio. Considering the current Middle East situation, this assumption of mine will probably turn out to be a foregone conclusion. But even if the Iraqi invasion of Kuwait had not occurred, my view is that Japan's investment ratio would still have peaked in 1990 or 1991. At the same time, in the event the Middle East situation should dramatically turn for the worse, the possibility of further decline in the investment ratio of the United States cannot be ruled out. If so, there is a probability that the investment ratios in Japan and the United States will once again revert to "parallel cycles."

Waves of 10-Year Cycles Also Occur in Other Asian Countries

Let us now examine the current phases of medium-term investment cycles in countries around Japan. I have picked, for this purpose, South Korea and Taiwan from among Asian NIES and Thailand and Philippines from among ASEAN member-countries, and examined their investment ratios in percentage of their gross domestic product (GDP).

In South Korea, Taiwan, and Thailand, peaks in investment ratios occurred in 1969 and between 1979 and 1980 while in the Philippines they occurred in 1967 and 1981, indicating that these regions, too, have had cyclical waves of about 10 years in duration. This of course is due partly to the workings of cyclical dynamism generated from within the economies of these countries. But there is also another aspect to it, which is that such cyclical waves in these regions are formed due to the influence of the economies of such advanced industrialized nations as Japan and the United States.

It is evident that in these regions, with the exception of the Philippines where Marco's downfall created political instability, investment ratios had consistently maintained upward trends until about 1980. This was a reflection of the fact that these regions had "graduated" from the state of low development. But it would be strange indeed if these regions remained completely free of cyclical dynamism in their investment activities during these epochal years of historical significance.

In these regions, too, investment ratios peaked in or about 1980; subsequently all four countries reached valleys in 1986. The valleys that preceded the ones of 1986 occurred in 1972 for South Korea and in 1974 for Thailand and the Philippines. This means that the valley-to-valley intervals covered a period of 12 to 14 years—somewhat longer than 10 years. This probably was due to the effect of the oil shocks.

Fixed Investment Ratios (in percent)

Country	1986	1990 (projected)
South Korea	27.6	35.7
Taiwan	18.3	23.5
Thailand	21.2	30.4
Philippines	12.9	18.5
Simple Arithmetical Average	20.0	27.0

Indications are that these countries, after their valleys of 1986, will probably have their next peaks in 1990. Using the investment ratios projected for 1990 by the respective governments, let us examine the movement of investment ratios in these countries during this period, 1986-90 (see table above). In all of these countries, their next peaks—if they occur in 1990—will come roughly 10 years after their previous peaks of around 1980 and 4 years after their valleys of 1986. It is clear that the investment ratios have risen considerably from the low points of 1986.

During this period these regions have experienced the Marcos shock, the Tiananmen incident, the problem of bulging debt due to the rising prices of petroleum and primary products, some deflationary effect of the gradual decrease in the U.S. Government's budget deficit, the rising wages due to labor shortages, and the outbreak of labor strikes.

Despite these problems the Asian-Pacific region has maintained a relatively high pace of economic growth.

One reason for this probably is that the countries of this region have still been in the process of taking off from the state of low development. At the same time, one must not overlook the fact that for these countries the period 1986 through 1990 has been a dynamic upward phase in their investment cycles.

When it comes to Singapore and Malaysia, they are susceptible more to U.S. influences than to the effect of Japan's investment ratio. Accordingly, their investment valleys occurred not in 1986 [when Japan had its valley] but in 1987-1988 [closer to 1989 when U.S. investment ratio hit a record low]. But in 1989-1990 their investment ratios entered an upward phase. In the case of Singapore, the investment ratio will rise from 35.1 percent in 1988 to 38.6 percent (projected) in 1990. In Malaysia, too, the gross domestic investment ratio, including inventory investment, will rise from 24.1 percent to 27.0 percent during the same period. Likewise, Indonesia will see its gross investment ratio rise from 24.3 percent to 33.2 percent over the same period.

As noted in the foregoing, in the United States the investment ratio has been on a 9-year skid since 1981; in contrast, Japan and other Asian-Pacific nations have managed to improve their investment ratios over these years. This is because the investment ratios of these Asian-Pacific countries have been on the rise—Japan since 1983; South Korea, Taiwan, Thailand, and the Philippines since 1986.

In the days ahead, however, such upward trends in the investment ratios of these Asian-Pacific nations are bound to show signs of medium-term maturity and will inevitably enter a phase of gradual decline. Especially in the event of such adverse scenarios as a turn for the worse in the Middle East situation or a less-than-satisfactory recovery from the recent sharp decline in stock prices, people's investment mind-set will cool off and a downward trend in investment ratios will become increasingly evident.

Problems in Securities World Viewed

912A0032A Tokyo SANKEI SHIMBUN in Japanese 24 Oct 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Special report by SANKEI economic section writer, Masaaki Takejima]

[Text] The stock market is continuing to suffer long-term sluggishness. Those securities companies which were singing songs of praise extolling their happy lot up until the end of last year, have been plunged into the abyss. Not since the time of the first oil shock in 1973 has there been such a sharp decline in profits as was reported on the 23d in the 1990 interim closing. There were even some quasi-major firms which fell into a current deficit. It came to the point where rumors of "bankruptcy takeovers" and "bonus cuts" spread through Kabutocho. I gazed out upon the "securities world—winter scenery."

Decreasing Transactions Are Severe Blow

The worsening performance of securities companies is due to the record-breaking plummet in stock prices since the beginning of this year. The average stock price at the end of last year was 38,915 yen. That was the highest price ever recorded. Since then, the price has continued to fall. Accompanying the increase in the official rate, a feeling that interest rates will rise in the future is spreading and capital has flowed from the stock market to high-yield financial commodities. Further, the 2 August invasion of Kuwait by Iraq was the follow-up blow.

Along with income from trading in stocks, the greatest source of income for securities companies is brokerage commissions. Plummeting stock prices hurt, of course, but the telling blow was the decrease in sales. This becomes obvious if we look at the average one-day sales at the Tokyo Stock Exchange. In 1986, it was 276.1 billion yen. This increased satisfactorily to 1.3358 trillion yen in 1989. However, since entering this year, the daily average over a month exceeded 1 trillion yen only for the month of May. For the other months from April through August, the average was 845.9 billion yen. This fell sharply to 512.6 billion yen in September.

Laments Concerning Bonus Cuts and Reassignment

The securities depression of 1965 is often compared to the present slump. In the four years following July of 1961, the average stock price dropped 44.2 percent. Yamaichi Securities was able to avoid bankruptcy by receiving a special loan of 28 billion yen from the Bank of Japan.

"The financial condition of the securities business world has become so good that the present condition can in no way be compared to the depression of 1965 because at that time, the deficit increased to an amount almost the same as the capital," (Tsuchiya Yozaburo, chairman of the board of Sanwa Securities). Such voices pointing out the structural strengthening are great in number. On the other hand, however, it is certain that a reorientation of management is being demanded. "We shall have to consider this a piercing reproach," (Yamazaki Tomiharu, chairman of the board of Sanshu Securities). And even firms where "a department for avoiding overall risk has been set up" (Dozen Masahiro, president of Daiwa Securities) have appeared. But the principal subjects of conversation in Kabutocho are the reduction of personnel and bonus cuts. Generated by the bankruptcy of the Drexel Company in the United States at the beginning of the year, a tempest of personnel reduction swept through Wall Street. Mr. Zelensky, analyst for the Tokyo Branch of Jarden Flemming Securities anticipates, "Most likely no drastic personnel reductions will take place in Japan. However, the number of cases where middle age and older employees quit because of their dislike of having been assigned posts in branch offices out in rural areas will probably increase." Shin Nippon Securities has already relocated about 60 employees from the home office to branch businesses. They are frantically reducing the number of people in the home office while strengthening the front lines of business.

It also seems as if the purse strings on bonuses are going to be tightened this year. Last winter the mainstay employees of major securities firms received a bonus of 3 to 4 million yen. An executive of one of the major securities companies flatly stated, "That much won't be possible, but it won't be such a drastic.... We can do nothing but tighten the purse strings."

Second-Tier Firms Also In-the-Red

A counter lady who quit one of the second-tier securities firms recently during the third year of her employment said, "To achieve the budget norm at each branch office, we had to recommend that customers invest in mutual funds which are dropping. Therefore, I was tormented by feelings of guilt every day." This female employee tried to quit after the December bonus, but she says she was urged by her boss to quit "in September." "The budget for the second half of the year beginning in October is distributed in accordance with the number of employees at the branch. For that reason I was urged to quit before then. The hardest hit will be those young businessmen who have been with the company for only two or three years. I am seriously thinking of changing jobs." Substantial reductions in personnel are beginning.

The New York Stock Exchange crashed on 24 October 24 in 1929. This began the Great Depression through the entire world. Now, with the befuddling bill for the "bubble economy" coming due, it would not be a bad time for us to recall the lessons learned 60 years ago.

* Analysis of Corporations Fundraising Mechanisms

* Raising Too Much Money

912A0027A Tokyo NIKKEI BUSINESS in Japanese 8 Oct 90 pp 9-10—FOR OFFICIAL USE ONLY

[Text] 1 October—The Nikkei average of share prices temporarily fell below the 20,000-yen barrier . The rate of decline since the beginning of the year is close to 50 percent. In current aggregate value, 300 trillion yen is blown away in "the greatest crash in history," according to Securities Investment Trust Council Chairman Toshiaki Kimura.

However, no name has yet stuck to the crash this time. "The Bank of Japan (BOJ) and the Ministry of Finance destroyed the market by coercion." "It's a multiple contamination of the Iraq problem added to the severe change in the financial environment." "It's a feeling of pressure that the Bank for International Settlements' (BIS) own capital restrictions make it difficult to increase bank lending." Such are said to be the causes. But in the words of a senior life insurance company official, one can also hear voices to the effect that, "I can't understand why they have to fall this much."

Up to 60 Trillion Yen Ingested in 3 Years

Speaking of past crashes of Japanese stocks, the market determined that the causes had been external shocks. Thus, one cannot necessarily say that people are turning pale in experiencing "self-destruction" for the first time. From Tatsuo Kubota, head of the Japan regional headquarters of the Citibank Private Banking Group: "When the bubble burst stocks on hand fell but the operating capital (the flow) is circulating due to the favorable conditions of the real economy."

"They should have been able to predict that this would happen. The government, of course, but also the leading companies and institutional investors joined in activities even while knowing that they wouldn't continue," says the head of a non-bank.

"What was predicted" points to the effect brought on by the separation of the GNP and the money supply (the real economy and the credit economy). The year 1982 is made the starting point of the rising market played up until last year as the "creditor-nation market," but the rise in the volume of funds provided that were over twice the GNP growth rate after 1987 greatly swelled the bubble.

"The activities which they joined while understanding" are the various ones of the government, which raised 10 trillion yen by selling Nippon Telegraph & Telephone (NTT) stock at a high price in line with its super-relaxation of financial policy; of the companies, which made use of high share prices to ingest 60 trillion yen in practically free funds in the three years from 1987 to 1989; and of the investors, who invested funds in stocks which did not show profits beyond the hope of increase in share prices.

What moved ahead in the Japan of the second half of the 1980's was the concentration of funds in enterprises. The sector-specific surplus and shortage of funds of the BOJ's "Funds Cycle Calculations" is a funds distribution table that shows the flow of money of Japan's economy: In which sectors of the national economy were born funds surpluses? Which sectors took in funds?

It is expected that the individual sector is a funds supplier, but the public sector, which was the main body taking in funds from 1975 to 1984, achieved fiscal balance after 1988 to become a funds surplus sector. On the other hand, the corporate enterprise sector raised a large guantity of funds, bringing on a funds shortage rivaling that of the era of high-speed growth.

The main fundraising places of enterprises are the domestic and foreign securities markets. The share of stock held by individuals is consistently falling. Such financial organs as the banks and insurers played the role of linking the individual's surplus funds (savings) to the enterprises. Equity financing (fundraising linked to new stock issues) is the privilege of joint-stock companies. One could say that the second half of the 1980's was a time when joint-stock companies made full use of that function in prodigiously amassing funds.

It was said of the rise of share prices that, "One cannot explain Japan's share prices separately. The financial environment of the macroeconomy, in other words its excess liquidity alone, becomes the decisive factor of share prices." The financial tightening beginning in May 1989 undoubtedly delivered a body blow.

If the rapid turnabout in the rise of interest rates, in the words of Mikuni Offices Representative Manager Akio Mikuni, "is a process to cover the great dislocation of going from the euphoria of stocks rising due to purchasing and stock purchases due to their prices rising to a level where they can be bought on sound speculation according to their fundamentals," then the problem is one of fundamentals and business performance.

Optimal Business Performance Supported by Financial Engineering

It is not precise to say that 300 trillion yen went up in smoke. The fact is that the asset values for investors fell by that much, but that is because 60 trillion yen surely entered the pockets of enterprises (such financial organs as banks account for over 10 trillion yen). What in the world was the practically free money raised with super-high-priced shares used for? Excluding financial institutions, the net financial assets of the 1,592 companies from all industries listed (the total of cash deposits, short-term negotiable securities, and long-term negotiable securites, excluding those in shares of related companies) was 80 trillion yen at the end of March 1990, having swollen to twice that five years ago in March 1985. It is evidence that they spun the funds raised at low cost around for the financial engineering (zaitech) of financial asssets.

The resulting financial balance turned into the black in March 1989 for manufacturing industries; for all industries as well, it improved by 2.3 trillion yen in 5 years. At 5 percent interest, the effect would be 2.5 trillion yen, worth over half the 5-year rise in operating profits.

The result of continued double-digit increases in capital investment since 1987 is that the charges for depreciation expenses for the listed enterprises in all industries also increased by 2.4 trillion yen from five years earlier. The problem is how much fruit this capital investment will bear in the future and how to view the appearance of enterprises, having sensed that the advantage of equity financing has declined with the fall in share prices, postponing capital investments.

It pays if the money is practically free, but if profits do not add up at an interest rate that surpasses 5 percent, then they will fret about future returns. If one follows the theory that investment decisions are judged on the match between a project's profitability and the cost of funds, one has to say that capital investment on a par with that from the era of high-speed growth has more to do with the fall in the cost of funds than with profitability.

What is serious is the fall in the ratio of owned capital to profits, the indicator of how much profit is generated by the enterprise's owned capital—the shareholders' portion. March 1990's 7.73 percent falls under March 1985's 8.66 percent for listed enterprises in all industries. A real fall to this degree is not the end of it.

According to Sumitomo Trust Bank, when one plays the predicted ratio of net worth with the addition of potential stocks of the 947 listed enterprises carrying unredeemed convertible bonds and warrant bonds at the end of last year, 46 percent—434 companies—will be under 5 percent in March 1991; no more than 243 companies—26 percent—are able to compete with a rate of return above 7 percent. The results do not change even in extending the timeline to March 1992. Before the return to the shareholders of dividends, the profits to be a source of funds do not catch up with the increase of owned capital.

Economic Policy and Joint-Stock Companies in Question

Perhaps this is not the time to decide so, but did not the Japanese economy err in the distribution of funds? "Money to spare" is a story limted to the private sector. At this point in time, financial policy has almost become paralyzed. A government fearful of its net debt of 160 trillion yen has chosen the route of the internationally popular "Reagan folk story" under a banner of "no-tax fiscal reconstruction" and left center stage. The result of the expansion of the trade surplus and restrictions on public works investment is an unprecedented land-price spiral, frenzied share prices, and the concentration of wealth in the business sector.

Throughout the 1980's, Senshu University Professor Kimihiro Masamura made an issue of the decisive lag in Japan's social capital improvements, continually saying that, "Fiscal reconstruction for the sake of fiscal policy is nonsense." Now, with an aged society before our eyes, is the time that Japan should build up steadily—along with industrial investment to bear future fruit—its investment in social capital to leave to later generations. From the view point of the Japanese economy's distribution of resources, this is a period when economic policy and, at the same time, stock companies are in question.

* Equity Financing Criticized

912A0027B Tokyo NIKKEI BUSINESS in Japanese 8 Oct 90 pp 11-13—FOR OFFICIAL USE ONLY

[Text] "For a time the stock market was on the rise, right? This is it, we decided. We've been thinking about doing it for a long time. It's inertia." Vice President Kazuo Watanabe of Fujitsu, which has issued $330 million in warrant bonds in Europe and 50 billion yen's worth in Japan from the reopening of the issue market in July until the end of August, looks back on the circumstances of the issues.

Equity Financing a Drug

For the issuing enterprise, warrant bonds are a low-cost way of fundraising. But if, depending upon the market environment after the issue, the exercising of the right to subscribe to new shares does not move ahead, one meets the exercise option term and there is the danger of the bonds turning into simple waste paper. The warrant bonds of Japanese enterprises that set short the exercise option deadlines are particularly dangerous. If the exercise option does not move ahead and the deadline is met, the repayment funds will not necessarily be there, which betrays the trust of the investors and the credibility of the company. People involved in the market thus call warrant bonds "poison manju" [a manju is a Japanese sweet].

This time, the warrant bonds that Fujitsu issued not only have poison themselves but have the aspect of increasing the poison in existing issues. That is to say, it is because the exercise price of 1,210 yen falls under the conversion price of 1,756 yen for the convertible bonds issued last year and the exercise price of 1,547 yen for the warrant bonds issued in 1988. Naturally, the priority is for the warrant bonds issued this year to be converted into shares. With the increase in those shares, the relationship between supply and demand is worsening, so high exercise and conversion prices become more and more a disadvantage.

Thus, in a situation of falling share prices, the ironclad rule is to avoid issuing convertible and warrant bonds. However, for the Japanese enterprises that recklessly charge along the expansionary route, it seems that there is not the margin to observe that kind of ironclad rule.

"There's nothing to do but to apologize to the investors that it's a market problem. Well, perhaps share prices also are at their low price here. Whatever the case, there's probably no other way but for the issuing companies to better their performances and raise their share prices," according to Vice President Watanabe. On top of Fujitsu's yearly investment of over 200 billion yen in plant and equipment, the company acquired the computer manufacturer ICL this year for 190 billion yen. Its demand for funds is endless. It is said that, if an upper limit of 100 billion yen, at one time, for equity financing had not been set as a measure, Fujitsu would have liked to have raised a greater amount.

Kawasaki Steel, too, raised funds close to the full limit of 100 billion yen on 20 September in issuing warant bonds in Japan and abroad. Major steel manufacturer Nippon Steel had already, by January of this year right before the crash in share prices, finished raising funds by equity finance in excess of 800 billion yen. Kawasaki Steel and others, one step behind this, had accomplished fundraising with the reopening of the issue market.

In Kawasaki Steel's case, it is their first experience with warrant bonds. The company is issuing convertible bonds at a level greatly rising above last year's conversion price of 1,091 yen and the current warrant bond's exercise price of 441 yen, but repayment for these convertible warrants falls due in 1998 and 2004. They are later than the repayment term of 1994 for the current warrant bonds. In that sense, the possibility is small for troubling investors, but the company is the same as Fujitsu in its greed for equity financing.

Manager Toshio Kutsunoki says that, "We prepared since May and thought we'd do it soon after the reopening, but it slipped into September. In that time share prices fell greatly, but once we made up our minds we could not stop it." Last year, other than the additional investment of $350 million in the U.S. Amco Company, capital investment was also lively in its main business. The demand for low-cost funds was in full bloom..

The fundraising cost for corporate warrant bonds this time is approximately 5 percent. Although it is high if seen as a situation of having been able to issue warrant bonds at minus interest rates at one time, it is still at a low level if compared to the long-term prime rate, etc.

For enterprises that demand funds, if the most low-cost method of fundraising is equity financing, it is natural that they choose that method. It is judged to be linked to the advantage of the companies to take that method to the extent that the market can bear. A senior official of a certain major securities company says that, "Listed enterprises are all drug addicts." Once they have tasted success, they are wild about it.

Nomura Securities, Tops in "Waste Paper"

The warrants of the warrant bonds issued in the period of high share prices from 1987 to 1989 will come due in succession starting next year but, seen from the present stock market, share prices rising over exercise prices is quite an unreasonable scenario. In short, it is a certainty that large quantities of warrants that will become waste paper. In spite of this, enterprises do not appear to be so aware of it.

Even among the candidates for waste paper, the most remarkable are the warrants of Nomura Securities that will meet their exercise term in September of next year. In contrast to an exercise price of 3,351 yen, share prices on 20 September were 1,530 yen—an opening that is more than double. Judging from the environment surrounding the securities industry, share prices will not rise above exercise prices up to the term short of a miracle happening.

Nomura Securities is in the position of the leader of a securities industry that has subscribed to a large quantity of warrant bonds. As there is a considerable number of investors in warrants even overseas in dollar-denominated warrant bonds, "If Nomura Securities muffs its response, the Japanese warrant bond market could be driven into a state of suspension for some time," in the words of a foreign securities company.

Naturally, Nomura Securities itself is unexpectedly frank. Director Shinpei Matsunoki, responsible for convertible bonds warrants, explains that, "Looking at share prices after the issues, the period is longer in which the exercise price is higher. Because the share price in April was at 5,990 yen, 1.7 times the 3,465 yen exercise price at the time of the issue, that the exercise has not moved further than 0.5 percent until now is due to the special trading on the part of some investors." It seems that it is not a case of Nomura Securities bearing responsibility as the issuing company; this occurred within the market, so it cannot be helped.

An official in charge of trading from a securities firm other than Nomura also speaks: "At the present level of share prices, if Nomura issues new warrant bonds, they may be able to sell quickly. On condition of the market being at its true strength, the investors would accept them. They don't have to worry so much about the past warrants becoming waste paper.... Of course, the present market is not at all capable of accepting the large amount of financing it once did."

If the market mechanisms do not collapse in experiencing the crash of the Nikkei share price average falling by close to 50 percent from its high at the end of last year and the continued issue of waste-paper warrants—and if there is finance based on that—then people will not talk.

Even so, at this time there is financing in view that gives one pause. In the midst of the Iraq shock that is alarming the world, a certain petroleum company has decided to issue warrant bonds. This is in spite of the likelihood of the company's business base shaking due to the future oil situation. A medium-sized trading company whose worsening business conditions due to overinvestment in real estate is rumored also to be venturing into issuing warrant bonds. If one were suspicious, one would have to see the company as having run to equity financing because financing is difficult with the restrictions on real estate and the effect of high interest rates.

Companies raise funds when they are able to do so at a lower cost. Even when share prices have fallen this low, greedy enterprises do not exercise the power to restrain themselves. Moreover, subscribing securities firms are appearing. In the words of a major securities firm, "We are only responding passively to the needs of enterprises." But the company's true intention is probably that, "We don't want to stop the issue of warrant bonds that are a source of profit. In order to cultivate a warrants distribution market as well, the issue of warrants is necessary."

"Japanese Stocks the Goal, As Expected" And Pensions

Now, enterprises engaging in equity financing are not the only ones that are greedy. In December of last year, Nippon Oil raised 200 billion yen of funds in issuing convertible and warrant bonds. In the meantime, the industry environment is unclear and there is no plan but, because there are enough funds, according to Director Mamoru Sugiyama, "I would like to consider some kind of equity financing." It seems a judgment that it can't be helped, even though the conversion and exercise prices in line with the level of share prices at that time are under past issues.

Nippon Oil at present carries over 1 trillion yen of financial assets that generate a positive financial balance of 20 billion yen a year. On the other hand, operating profits are in the doldrums. This income structure indicates that past equity financing was not linked to a strengthening of the company's main business, but its share price of 1,000 yen even after the crash opens the way for Nippon Oil to advantageous fundraising.

Of course, the position of enterprises is expected to be changing in line with the response of investors. Let us listen to the voices of institutional investors burned by the crash in share prices. Equities Director Tadao Nishioka of Nippon Life Insurance, which holds approximately 6 trillion yen in equities, throws up his hands: "We do not invest in warrants themselves, but we cannot trust enterprises that blandly make waste paper of them. I would like to replace the names [of the shares] we hold." Dai-Ichi Life Insurance and other insurers are in the same position. But in looking at the condition of the issues market after its July reopening, one understands that these voices are not fully working as a braking force.

In the case of Nippon Life, despite the lackluster growth of its assets due to the terms coming due on old-age pensions, assets are increasing on a scale of 3 trillion yen a year at this time. A fixed portion has to be applied to Japanese equities. The situation is the same for the pension management of credit banks. For a 10-year period hereafter accumulated money will be on the increase. "Now, Japanese equities account for 22 percent of managed assets, but this is the lower limit. As you would expect, there is a future in strongly competitive Japanese enterprises," according to Sumitomo Bank Pension Fund Director Sumio Kurachi. Reflections on greedy financing remain only a hope.

Hereafter, there is a possibility that the number of enterprises that increase their dividends and take their gratis capital expansion to the limit will increase, but basically there are limits linked to advantageous fundraising. Still, the basic point is that if share prices rise even a little, there is scope for advantageous fundraising. It appears that the financing and constitutional strengthening of enterprises in which the securities companies play an intermediary role and which institutional investors support may not yet be crumbling.

Naturally, this is premised on no cracks appearing in the structure of cross shareholding and such that have supported Japan's high share prices. Further advance of weak share prices is heightening the dangers destroying cross shareholding gradually from its weak point and inviting the collapse of the three-in-one structure recorded above. Ultimately, in the strengthening of their structures, enterprises will perhaps get a severe payback if they continue calmly resting on their laurels of making the economy prosperous and also enriching investors.

* Acquiring Low-Cost Funds

912A0027C Tokyo NIKKEI BUSINESS in Japanese 8 Oct 90 pp 14-16—FOR OFFICIAL USE ONLY

[Text] Along with the development of internationalization and the envigoration of advances into new business fields, there are Japanese enterprises that seem to have developed a strong sense of group management. These past few years, in the midst of promoting this group strategy, public share offerings of related companies have been particularly remarkable. In the five-year period from 1985 to 1989, enterprises that were newly listed on exchanges nationwide and registered stocks over the counter amounted to 416 companies. But 84 of them—over 20 percent—were companies related to ones already listed, according to a survey of the Nomura Research Institute. This year, too, it seems that as many as 30 companies will be companies related to those already listed.

In Europe and the United States, one does not see parent and subsidiary companies listed. If we examine that situation thoroughly, there come into view mysterious mechanisms of the Japanese stock market that permit extremely advantageous fundraising for large enterprises.

Speaking of pioneers of public share offerings of related companies, there are such enterprises as Hitachi and Matsushita Electric Industries. Hitachi is already offering shares on the subsidiaries of its subsidiaries; in short, on 29 companies including those "grandchild" companies. Recently, Matsushita has been suspending its public offerings, but even so has 11 such companies. The goal is a sound one. In the words of Hitachi auditor Yasuo Miyanouchi, "By making clear the management responsibility and heightening the independence of the various enterprises, we accelerate the development of the entire group."

Profit, Oppose Rival Enterprises

The problem is what sort of effect does that have on fundraising, which is the stock company's most basic function? The issue for such equity financing as issues at market price and convertible bond issues is, needless to say, their evaluation in the stock market. In that regard, please look at the table below. For all three companies, there are entries for two current aggregate share values.

The evaluation in the stock market of the Hitachi group in the view of European and American investors is probably the current aggregate value of 3.91 trillion yen of Hitachi alone. In reality, if you held the majority of Hitachi's shares, you could control in the same way everything, including the subsidiaries and related companies. The share prices themselves are formed on the basis of consolidated accounting that show the earnings of the entire group. That is at least how it is expected to be in the New York market.

However, evaluation in Japan is different. Related companies are also listed, so the part held by shareholders outside the Hitachi group within the current aggregate value must be added. In short, it becomes a stock market evaluation in Japan regarding the Hitachi group's 5.76 trillion yen. Japan's investors—although foreign investors are also partially involved—assign a price of 5.76 trillion yen to something that can be bought for 3.91 trillion yen. As with cosmetics and hamburgers, there is one price in Japan and another abroad.

The stock market is still small in scale and highly evaluates the shares of enterprises belonging to growth industries. If shares are publicly offered chosen from enterprises from the groups, it can heighten the fundraising power of the group.

Following the table, the Hitachi group in the five years until 1989 realized equity financing of 590 billion yen in Hitachi itself and 440 billion yen in related companies. Even deducting the 72.6 billion yen that Hitachi took from the related companies earnings, it still comes to 957.4 billion yen. Would Hitachi by itself have been able to put together so much money? The Matsushita group also, after deducting the parent company's part, raises a huge volume of funds—1.759 trillion yen.

Hitachi and Matsushita probably did not make public offerings of related companies with the main goal from the start of advantageous fundraising using related companies. The exceptionally high shares with financial slackening in the background from the second half of the 1980's made fundraising using shares prices extremely advantageous. If so, there were none who did not take advantage of it. If Hitachi and Matsushita ran to financing through their related companies, rival enterprises engaged in fierce competition around them were also stimulated [to do the same]. The listing of related companies became the most important strategy of Japanese enterprises.

Certainly, as the beginning figures indicate, the movement to make public offerings of related companies became vigorous among large enterprises at the time. Take Fujitsu, for example. "We are listing companies that can be independent and bringing the group's power to bear," in the words of Vice President Kazuo Watanabe. Fujitsu listed one subsidiary in 1987 and two in 1988. In addition, Fujitsu Kasei and others are coming into view as the next candidates. Fujitsu, in a relationship of rivalry with Hitachi in money-eating enterprises such as computers and semiconductors, has to fight that company.

Japanese Companies That Heightened Their Evaluation, Fundraising Power In the Stock Market Through Introduction of Shares of Related Companies

Current Aggregate Share Value and Fundraising Condition of Three Major Electronics Company Groups

Enterprise (Group)	Number of Related Companies Having Made Public Shares Offerings	Current Aggregate Share Value Seen From Overseas (Parent company only)	Current Aggregate Share Value Seen Domestically (All the group's companies having made public shares offerings)	Increase in Value of Acqusition of Shares, Convertible Bonds of Related Companies by Parent Company (5-Year Period Until March 1990)	Parent Company's Equity Financing (5-Year Period Until March 1990)	Equity Financing of Related Companies Introducing Shares(5-Year Period Until March 1990)
Hitachi	29	3.9112 trillion yen	5.7615 trillion yen	72.6 billion yen	590 billion yen	440 billion yen
Matsushita Electric Industries	11	3.4474 trillion yen	6.4261 trillion yen	200.4 billion yen	667.8 billion yen	608.5 billion yen
Fujitsu	10	2.8534 trillion yen	4.1147 trillion yen	28.2 billion yen	440 billion yen	175.5 billion yen

Note: In the current aggregate share value seen domestically, the holdings of the current aggregate share value of the related companies making public shares offerings apart from the group ocncerned is added to the parent company's current aggregate value. The share prices are those as of 20 September.

Keeping Control of Subsidiary a Blind Spot

The equity financing of Japanese companies at low cost is nothing but a threat to U.S. enterprises that suffer from high interest rates. On top of that, the Japanese companies are rushing wildly to advantageous fundraising in mobilizing their related companies. It is not mysterious that this appears strange in the eyes of European and U.S. enterprises that do not have such a custom.

The Tokyo Stock Exchange this July distributed to the share underwriters of securities companies a document entitled, "Concerning the Treatment Related to the Listing of Subsidiary Companies." Its contents were the concrete standards of examination for listing subsidiary companies. The Exchange, responding to the rush of applications to list related companies, makes an indirect appeal, but does not touch upon the real arguments of joint-stock companies such as the meaning of listing related companies. The movement of listing related companies cannot now be stopped, so a relaxation of criticism from overseas that it be more open, will not necessarily be seen.

But are there really no problems with public share offerings of related companies? In cases where parent companies hold over 20 but under 50 percent of shares in related companies and over 50 percent in subsidiaries, shareholders other than the parent company are buying shares with no real vote. Suspicions remain whether enterprises one cannot control no matter how many shares one buys are joint-stock companies.

There is a blind spot in the strategy of public offerings for related companies. In the case where a related company goes into equity financing and increases the number of issued shares, how does one maintain control? Hypothetically, if the shareholding ratio for a subsidiary must exceed 50 percent, as long as keeping an absolute majority control is mandated, the parent company always has to take on 50 percent of the subsidiary's equity financing. So, seen in the case of the group, the funds efficiency does not effectively change with that of parent-company financing alone.

Naturally, there are many cases of newly listed enterprises where the shareholding ratio of the parent company is rather high. For example, Hitachi's shareholding ratio is 63 percent for its subsidiary Hitachi Information Systems, which was listed in the second section of the Tokyo Stock Exchange in January 1987. In March 1989, Hitachi Information Systems issued $100 million in warrant bonds aimed entirely at outside investors, but its parent company would have to lower its shareholding ratio to achieve a listing in the first section and is said to wish to continue equity financing in a form that will not burden the parent company. The share price of Hitachi Information Systems is at the 3,000 mark, a high level close to three times that of Hitachi itself. There is much merit to being able to use fully these high share prices as a group.

Even so, this is still on its way. If equity financing is continued, it becomes necessary to support the shareholding ratio at some time. There is the likelihood of ceaselessly making public offers of new related companies in order to conduct efficient fundraisings. That trend is seen among some enterprises. However, there is the need for fundraising within the groups among enterprises with such breathing room in their shareholding ratios.

The Three Families [a reference to the three dominant families of the Edo period] among Hitachi's subsidiary companies are Hitachi Kasei Industries, Hitachi Densen, and Hitachi Metals. Hitachi's shareholding ratio is a bare majority of between 50 and 55 percent for all of them. These three companies have issued a total of 160 billion yen in convertible and warrant bonds over the past five years. In this case, Hitachi has had to buy a considerable portion of the issues. In reality, looking at Hitachi's March 1990 financial statement, the company holds 34.6 billion yen of the three companies' convertible and warrant bonds. Only these funds are sleeping at a low rate of interest.

Aiming for Solution By Issue of "Preferred Shares"?

Hitachi Auditor Miyanouchi says that, "It won't do that each project sector uses money earned by the sweat of its brow to buy the shares, convertible bonds, and warrant bonds of subsidiary companies. That becomes financing in order to issue convertible bonds and such." Matsushita's Vice President Masahiko Hirada complains of the same trouble: "We can't command our subsidiaries to stop their fundraising. It's a serious problem." So that their control does not lessen along with the equity financing of their subsidiaries, parent companies also do equity financing and buy the shares and bonds of their subsidiaries. It is the logic of perverted capital.

Even so, because the public offerings and money raising of related companies cannot be stopped, parent companies must find a solution. A movement has already begun: the issue of preferred shares with no voting rights. Until now there have been many restrictions on preferred shares, and there have been almost no issues. However, because it will become easy to issue it under the commercial law revision planned to go into effect in the spring of 1991, Hitachi "is considering an issue," according to Auditor Miyanouchi.

However, fundraising by preferred shares for now has rather higher costs than that linked to issues of regular shares. Whether having the related companies issue them or do it oneself, it cannot be thought that it is so attractive that companies will jump at the chance. Still, that Hitachi is indicating a forward-leaning position on issuing itself forecasts the collapse of the rising stock myth. Have not companies started to consider seriously how to reconcile fundraising and keep control?

* Companies Go Public

912A0027D Tokyo NIKKEI BUSINESS in Japanese 8 Oct 90 pp 17-20—FOR OFFICIAL USE ONLY

[Text] On 24 August, as the stock market was in the midst of its crash, construction machinery rental company Nishio Rental (main office in Osaka) offered shares to the public on the over-the-counter market. The interest surrounding the event was in the initial trading price to be attached to the publicly subscribed capital expansion and startomg sales price of 3,120 yen determined by bids on 9 August. In short, how much would the initial price rise?

As expected, under a bad environment the initial price stopped rising at 3,200 yen, 80 yen above the public offering/initial selling price. There was the feeling that the strength even of the fever for public share offerings had been stopped at this point. However, the initial price was at the high level of 64 times face value. It was 6.5 times the value of net assets per share. Real assets including, with careful deliberation, the latent profits of landholdings and such seemed to be rising above accounting assets, but the moment the company made a public share offering, this high evaluation stuck.

4.6 Billion Yen Raised At Cost of Over 0.5 Percent

"That an initial price hardly changed from the public offering price decided by bids means that we got an evaluation corresponding to our true strength, which is fine. Hereafter, one can say it would be convenient even if we maintain the price. At first it had a slow start in line with the true strength of the company, but now it will grow." Company founder and President Akira Nishio puts an expression on his face that is not all that bad concerning the "success" of his public offering.

In reality, Nishio Rental acquired a giant sum of funds at the same time of its public share offering. The number of shares offered in the public offering was 1.5 million. The public subscription price was 3,120 yen, as noted before, so the sum raised reached was 4.68 billion yen. A mid-sized enterprise with business showings in the September 1989 period were sales of 20.6 billion yen and operating profits of 2.2 billion yen snagged at a stroke so much money.

For that company, which is aiming to strengthen its base in eastern Japan and has an ambitious plan for new office construction and expansion, at a mere cost of 0.5 percent—taking into account responsibility only for dividends and corporate taxes—its funds will become a great weapon. With its share prices hereafter, even more efficient fundraising is possible.

However, new public offerings appear, one after another, but not necessaily because the enterprises that offered them are able to heighten their fundraising power. This magazine estimated in the table below how much latent profit the people and enterprises that were shareholders in Nishio Rental earned in the public offering. The owner's 20.7 billion yen (1.17 billion yen in reality at the time of the public offering) is in the lead. It is understood that from the management and employees to the banks, insurers, securities companies and venture capitalists, the wide range of those involved created assets of their own.

For several years before the public offering, banks, insurers, securities companies, venture capitalists, and others subscribed to capital increases and convertible bonds, providing the company with growth funds and particpated in shares of the founder's profits, but both the subscribed capital increases nad the conversion price of the convertible bonds were from 200 to 400 yen. Although since all the enterprises that supplied funds made it to the public offering, depending on one's point of view, it is not such great "business."

Because there is still a fence between banks and securities, the former cannot become the managers of public share offerings. There is also concern that they will be paid back by enterprises that have flexed their fund-raising strength in a public offering. There is an aspect of it being difficult to approve fully the public share offerings of the enterprises doing the trading, but there is now a strong wish to accumulate even a little latent share profit in order to reach the capital ratio of the Bank for Interntational Settlements (BIS). As prospects for securities companies are worrisome now more than before in trading shares of existing public enterprises and assisting fundraising, they must put their efforts into the public shares offering business.

It is nothing much. If the first section of the Tokyo Stock Exchange, the main market, was thought to have repudiated it, it looked like a case of the banks and securities firms opening a founders' profit acquisition game in the over-the-counter market that is the main stage. In this connection, concerning the 73 companies that made over-the-counter public offerings last year, when we calculate how much latent profit was generated for the shareholders from the number of shares at the end of the issues and the public offering price, we arrive at roughly 2 trillion yen.

In such a situation, the public offering myth is completely established. With the Recruit incident, the price of public offering capital increased and public offerings were able to be determined by bids. The public offering myth that one can make a lot of money if one only gets his hands on publicly subscribed shares at the time of the public offering was seen to be breaking down.

Latent Profits Totaling 3,720 Trillion Yen Through Over-The-Counter Public Offering

In Nishio Rental's Case, How Much Latent Profit Did the Various Shareholders Earn in the Public Offering (Estimate)

Shareholder	Number of Shares Held (millions)	Percentage	Acquisition Price for Share (Yen)	Total Acquisition Value (billions of yen)	Current Aggregate Share Value at Time of Public Offering (billions of yen)	Latent Profit Due to Public Offering (billions of yen)
Owner	69.67	54	222	154.6	2,229.4	2,074.8
Management (10 people)	5.48	4	119	6.5	175.3	168.8
Employees' Shareholder Association, Individuals	17.61	14	287	50.5	563.5	513
Banks, Insurers (9 companies)	10.8	8	223	24	345.6	321.6
Securities Firms (2)	1.5	1	250	3.7	48	44.3
Venture Capitalists (3 companies)	2	2	297	5.9	64	58.1
Traders (14 companies)	7.91	6	19.7	15.5	253.1	237.6
Other Individuals	9.89	8	90	8.9	316.4	307.5
Total	124.86	96	215	269.6	3,995.3	3,725.7

Note: For the acquisition price per share, we assume that before 1982 each shareholder included at the establishment received newly issued shares corresponding to his ratio of shares held. After 1982, it is calculated according to the allotment of new shares printed in the public offering prospectus. The current aggregate share value at the time of the public offering is calculated at 3,200 yen per share. Also, the ratio of the number of shares issued of the number of shares held is that right before the public offering. The "owner" includes the company president, his family, and the shareholding company.

Initial Price Inducement Gives Rise to Public Offering Myths

Let us again take Nishio Rental as an example. The upper and lower limits of the bidding price are set based on the share price of a similar enterprise already offering its shares to the public. In Nishio's case, the upper limit is 3,120 yen; the lower limit is 2,400 yen. The final public offering price is decided at the upper limit. Nishio Rental is not the only company set at its upper limit. These days all of them are. Money is made acquiring publicly subscribed shares by bidding and then selling them at their initial price, so they are quite popular. It is natural that the bidding price sticks to the upper limit.

However, according to those connected to the market, the initial price itself "is induced into the high prices by the securities companies." Would it be exaggerating to say that, under the manufactured myth of the public offering, a mechanism is operating whereby enterprises are able to make public offerings without fear?

Certainly, the service orientation of the economy is advancing and new enterprise groups are appearing with an unprecedented domestic-demand boom in the background that some say may overtake the Izanagi boom that lasted 57 months. Nor can one ignore that the hurdle has become lower with the relaxation of standards for over-the-counter requirements. That public offerings have become so aroused is primarily due to the healthy vitality of the Japanese economy rather than simply to the pushing of financial institutions and securities companies.

In the securities industry, the strong opinion of Yamaichi Securities Public Offerings Vice President Hitoshi Nagasuka is dominant: "On condition that the stock market is stable, enterprises offering public shares—including those listed and over-the-counter—will grow further to a pace of 150 to 200 companies a year." But is this "vitality" really a plus for the Japanese economy?

Purpose For Using Funds Mainly Tied Up in Land

If cases are growing of securities companies and financial institutions aiming to increase the latent profits on their shareholdings making enterprises go public, then there are also surfacing enterprises without much hope for future growth. One has to say that public share offerings that once were expected to be the start of a project's expansion have now become a goal in themselves.

Choya, an established dress-shirt manufacturer went over-the-counter in August. The company, against a recent backdrop of steadily increasing sales of casual wear, is positioning itself as an industry of the 1990's with public shares offerings. On the other hand, however, there is the dubious statement of company President Yoshiteru Asai: "Starting with the postwar dismantling of the *zaibatsu*, it is the result of all the company's employees becoming one and working hard."

In reality, positioning oneself in the apparel industry itself limits future growth. Some 100 years have passed since the company's founding in 1886. One has to say that the goal of the public share offering was to create an asset to say "Thank you" to—first of all—Nomura Shokusan (a member of the old Nomura *zaibatsu*), traders, former managers, employees, and other shareholders.

There is even a problem in the purpose itself of the funds raised. Looking at a breakdown of the 73 companies that went public last year—38 in manufacturing industries, 2 in finance, 4 in real estate, and 29 in distribution service industries—an outstanding number are nonmanufacturing industries. That a total of 6 companies in finance and real estate made an appearance probably reflects the cash-rich, bubble economy of these past few years. These companies aside, a purpose tied up in land is at the center.

Matsumotokiyoshi, went over-the-counter in August. It is a retail chain developing approximately 180 pharmacies and supermarkets centered in Chiba Prefecture, but it is earmarking all the 4.5 billion yen raised in the public offering to acquire land for its stores and build new stores and expand. As already seen in the example of Nishio Rental, it is applying its funds raised toward land acquisition for business offices and such.

The optical chain store, Aigan, which listed in the second section of the Tokyo Stock Exchange in November of last year, is the same. The foremost aim of the public shares offering was "to raise the company's credibility." However, it would probably be a lie to say that the company was not moved by the attraction of raising funds. Aigan invested the 8.8 billion yen of funds raised in listing in land acquisition and construction of headquarters buildings in Tokyo and Nagoya. With skyrocketing land prices these past few years, funds to construct buildings have been ballooning. As its financial structure was essentially free of loans, the company should have been able to rely on borrowed money from the banks, but company President Senichi Shimojo hints at large-scale real estate investment with low-cost funds raised by public offerings: "Interest responsibilities with money borrowed from banks are hard."

Of course, the real estate acquired with publicly subscribed capital expansion funds at public offerings will probably be indispensable to the various enterprises for their future business expansion. As long as they are not for speculative purposes, they themselves are not at all censurable. However, if the money of individuals—institutional investors' funds originate as the money of individuals—is sucked up by enterprises in public share offerings and turned into real estate such as land, and if it becomes a structure that supports land prices, then the wholehearted rush to public offerings is not a welcome one.

* New Rule for Profit Sharing

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[Excerpts] "I haven't heard the argument that Japan's stock companies are a problem. Japanese-U.S. friction also must have surfaced because Japan's stock companies succeeded." Japan Committee for Economic Development (Keizai Doyukai) Managing Director Keiichi Abe's words are probably the common recognition not just of financial experts but of the majority of Japanese.

What support the Japanese economy are the close to 1 million joint-stock companies and, unmistakably, the fewer than 2,000 companies listed (publicly subscribed). Nikko Securities Investment Trust Committee Chairman Toshiaki Kimura, who has long handled corporations for Nikko Securities, develops the "joint-stock company resource argument." The joint-stock companies are the unique great economic resource for Japan, a nation with no natural resources, and this will not change any time in the future.

Transitional Stage Toward "Society's Company"

The joint-stock company is said to be one of the most important social discoveries in mankind's history. In particular, public enterprises dispersed the financial risk the owner (manager) should bear to outside individuals and institutions, which opened the way to mobilizing large quantities of funds. However, in reality, friction over the reversion of profits is emerging between the shareholders who bear the risk and the managers who supervise it. It is the age-old joint-stock company problems of possession and management and of earnings and distribution.

The shareholders' logic, taken for granted in the United States, is weak in Japan. Why is it that the serious opposition between shareholder and management has not surfaced?

Mitsubishi Kasei Vice President Giichi Miyabe summarizes in the following way the development stages of joint-stock companies:

"If we consider who owns the company, it is the owner's in the first stage. Passing through it becomes the shareholder's in the second stage, it changes into society's in the third stage. In Japan's case, with the transformation from the shareholder's stage, the period of society's stage has continued for a long time. If the notion of the company as owned by the investor is too strong, the bad effects of tilting toward short-term aims are great. But if there is also too strong a sense of company, there is the problem that opaqueness will grow."

Japan's stock companies are probably in a transition period moving from management on borrowed money to management on their own capital, and regarding possession from "the company's company" to "the society's company."

Structure To Check Managers Lacking

Postwar Japan's joint-stock companies, under the dismemberment of the *zaibatsu* and the restrictions forbidding holding companies, started as "the shareholders' companies" with 70 percent of the shares held by individuals. That changed into "the company's company" from the 1960's, with the formation of enterprise groups by cross shareholding in the high-speed growth period and the strengthening of that cross shareholding by managers demanding stable shareholders in the face of capital liberalization. The shareholding peak for enterprise companies (general enterprises) was 27.1 percent in 1974; all corporate shareholders, including financial institutions, accounted for 63.9 percent.

When the Japanese economy lacked funds in that period, enterprise fundraising depended on loans mainly from the banks. The result was a mountain of enterprises pickled in debt, joint-stock companies in name only. Enterprises whose capital at their low period fell under 20 percent were taking on the shape of "the company ownership" under the supervision of the banks, their largest creditors. They became the exclusive possession of their managers and employees.

The torrent of equity financing accompanying the high share prices of the 1980's is changing greatly the character of Japan's joint-stock companies. Looking at the shareholder composition at the end of 1989, the corporate portion stood at 72.8 percent. Financial institutions showed a remarkable increase (to 46 percent from 1974's 35.5 percent). The funds of the so-called institutional investors such as the life insurers, trust banks, and investment trusts that came to the fore are the property of the people: insurance, pensions, and investment trusts.

The financial structure of enterprises is also changing. The capital ratio of listed enterprises for all industries at the end of March 1990 was 26.6 percent. If limited to manufacturing industries, the figure rises to 38 percent. It has become a period of no-debt companies appearing, one after another, if they dispose of financial assets and turn them to paying back debt. Would it be far-fetched to say that after 45 years of the postwar period that Japan's joint-stock companies for the first time have come close in function and actual condition to real stock companies?

The issue is whether the stock companies are taking action appropriate to the structural change in the possession relationships (from corporate possession to social possession) and financial content (from debt management to capital management). It is probably a question of whether the actual condition of Japan's joint-stock companies is becoming a system and organization appropriate to the "new realities."

Minebea President Iwao Ishizuka says that, "If you become company president and have the authority of representation, you have nothing to fear. There simply isn't any structure to check the arbitrariness of managers." By law the director fulfills the role of checking management as the shareholders' representative, but in reality he is nothing more than the employee of the company president, who holds the right of appointment and dismissal. The audit system also exists in form only. The company president appoints both the external auditor (a certified public accountant) and the internal auditor. It is the company that receives the audit report, so the organization functions only partially.

Dangerous Resemblance to U.S. Enterprises of 1960's

Not that there is no internal check on management, but Japan's joint-stock companies currently accept almost no supervision from the outside or pressure for distribution of profits. One can almost speak of an air pocket born in the transition of external organizations capable of exercising influence on the enterprise from the creditors (banks) to the shareholders. What emerges from the enterprise is not limited to the shareholders; few profits are returned to the employees (the falling labor distribution rate) or to society either. These are the self-aggrandizing corporate activities of an excessive internal savings structure that hoards profits mostly in the company. Kobe University Professor Masatoshi Takada says that, "Stock companies essentially gather money easily and are organizations for which the distribution of wealth is difficult, but Japan's enterprises are too much." Such enterprises as Toyota Motors, Hitachi, and Matsushita Electric, regulars at the top of the world corporate rankings, are giant stock companies that have grown to have sales rivaling the GNP of European and Asian mid-sized nations. That those joint-stock companies, lacking an organization of checks, have used the privileges of stock companies to the utmost and accelerated their self-aggrandizement activities is becoming a cause giving birth to friction at home and abroad. [passage omitted]

Japanese enterprises are already entering an area of concern in the form of a fall in their ratio of capital to profits. What cannot be overlooked at the same time is that the failure of the government's policy response and the greedy fundraising of enterprises carrying an excessive internal hoarding structure have thrown the stock market into unprecedented confusion.

The basic cause of the crash of close to 50 percent in the Nikkei share price average, according to Hidetaka Kawakata, chief researcher of the Nissei Basic Research Institute, is "the worsening of supply and demand due to fundraising equivalent to 10 percent, the current aggregate share value being concentrated in a short time at a point when stable cross-held shares occupy 60-70 percent of the market and circulating shares are thin." However, the view is strong that in a bottomless fall, "Holding onto cross-held shares would become difficult. So long as the enterprises and financial institutions do not launch sacrifice sales, it won't change the structure of stock companies."

Focus on Removal of Restrictions on Holding Own Shares

Now, where are the limits to being able to maintain cross shareholding? For Nippon Life, the largest shareholder, Share Director Tadao Nishioka says that, "Latent share profits become zero at around the level of a Nikkei average of 11,000 yen." Even though the core part of cross shareholdings built on the accumulations of the par value at issue cannot easily be destroyed, cases concerning the relatively new (those of the high share prices) cross shareholdings already lower than the acquisition price are surfacing, one after the other.

Hanwa Kogyo, which made a name for itself in financial engineering, "is not able to avoid appraisal losses surpassing 10 billion yen" with the fall in bankshares cross-held in the mid-September period, according to company President Shigeru Kita. Rumors are also flying that, "latent share profits among some of the life insurers have ceased." It is said, in the words of a major securities company, that, "apart from the enterprise companies, financial institutions without strength should be suffering at under 25,000 yen." It depends upon the market hereafter, but even though the securities industry pulled through the present crash, the "1993 danger theory" is being whispered. If the bad environment of high interest rates, etc., continues for three years, when the repayment terms are concentrated for the 10 trillion yen in warrant bonds issued against the backdrop of super-high share prices, the financial market will be pressed by the issuing companies raising repayment funds. There is the possibility that this will bring on the collapse of share prices.

Certainly, the fall of cross-held shares under their book value would effect a rather broad area. The fear would grow that panic would develop if discount selling started. At that time, the scenario of stock company restructuring that the enterprises themselves would demand would probably be the removal of capital restrictions. "If share crossholding collapsed, the attractiveness of shares would disappear," according to Yamaichi Securities manager Sanemichi Takagi.

The issuing companies themselves would have to begin maintaining their share prices and defending themselves against takeovers. It would be a case of their buying their own shares using as resources their own swollen capital and abundant financial assets. It would not do to continue holding onto their own purchased shares forever, so in the case they did not sell their own shares, it is possible it would be linked to a demand for accepting a holding company as a holding organization.

In reality, the removal of capital holdings restrictions is already at the examination stage. The Federation of Economic Organizations (Keidanren) declares that, "we would like to have shareholdings recognized as the final topic remaining of the commercial law revision begun in the mid-1970's."

Related to Japan-U.S. investment friction, the Ministry of International Trade and Industry [MITI] in its "Research Council on Industry Financing and Enterprises Organization," is examining the problem of shareholding and holding companies. "The United States is seeing cross shareholding as a cause of one-sided mergers and acquisitions from Japan. It is necessary to study what kind of system is desireable as a defensive measure that would be internationally transparent against hostile acquisitions," according to MITI International Enterprises Division Director Ryuto Ojiya.

Possession of owned shares is seen as a defensive measure against acquisitions, but at a time when the United States has demanded that "cross shareholding itself be done away with," one must prepare to accept it. That owned-share possession was not approved in postwar Japan was due to the fear that it would be used as a tool for share-price manipulation. There was also in the background the thinking, deeply ingrained in a period when the subject was capital replenishment of enterprises with fragile financial constitutions from too much borrowing, that "capital increases are good, capital reductions are bad." Japan's joint-stock companies are planned as "cars that, even though they have an expanded axle, don't have a reduced rear axle appropriate to the times." The prohibition against holding companies was a command of GHQ (Allied Military General Headquarters) to prevent the revival of the *zaibatsu*.

Whether disintegration by a crash in share prices or a strong-armed compromise by foreign pressure, if cracks appear in the cross shareholding structure, the "stock myth" will also collapse. "The share price formation of Japan, which was a developing country, will change to that of an advanced nation," according to Nippon Yusen Vice President Shigehiro Iwamatsu. The logic of issuing companies that, "There are profits from price increases, so dividends shouldn't be such a problem," will no longer fly. Companies will have to move to return profits to the shareholders by way of dividends. It also involves a deterrent to the joint-stock companies' self-aggrandizement. There is the possibility that the relationship between the issuing companies and the shareholders will change. This would be a first step in a great restructuring of joint-stock companies.

However, one cannot say that in this way alone the great restructuring of Japan's stock companies requested to accompany the transition from "a company's company" to "the society's company" would be completed.

From the viewpoint of the distribution argument, if, in the words of Vice President Miyabe of Mitsubishi Kasei, "It is a time when the present-day joint-stock company should think of returning dividends to the shareholders, taxes to the nation, wages and working hours to the employees, quality and price of goods and services to the consumers, and contributions to the regions and culture," then new rules of distribution and a structure to guarantee them are necessary.

Combining With Complete Reconstruction of Politics Essential

Musashi University Professor Tadanori Nishiyama, who classifies the actual condition of Japan's joint-stock companies as "organizations of worker (and the managers are their representatives) control," preaches the establishment of an auditing system on top of the separation of the management and auditing structures in order to prevent the damages of privatization of companies by workers without hindering the present high productivity.

An appropriate system of checks is indispensable to the social character of "the society's company." To the auditing committee structure of shareholders, creditors, and labor unions would be added national and regional representatives related to the public interest, securing its indpendence from the management. Management would be left to the workers (the managers), but the auditors would act in the view of society, which is an interested party in a broad sense, speaking out on distribution problems if necessary. The establishment of an auditing system is the basis of the distribution issue. "If there is no just auditing system, there is no just distribution either," according to Professor Nishiyama.

It is thought perhaps that the intervention of public authorities in the auditing of stock companies runs counter to the principles of a free economy, but a model already exists: the West German auditing system. The joint settlement law regulates great authority in the committee of auditors to which management and labor send representatives, but it is well known for playing an important role in the settlements of West Germany's large enterprises. However, it is not exceptionally well known that the state is a large shareholder in the West German auditing corporations serving as external auditing organs. Shibaura Engineering Works consultant Kiichiro Nishino (chairman of the Japan Internal Auditors' Council) says that, "West Germany can probably do it because the number of joint-stock companies is small, but it's probably a resason why the West German enterprises and economy are sound."

It is not a simple story of all the problems burdening Japan today being solved if joint-stock companies are restructured. If we take the position that the state and enterprises are responsible for areas beyond the power of the individual, it is the state's task to make clear the distribution of roles between the state and enterprises as well as to set the parameters for enterprise activities. The great restructuring of joint-stock companies is an issue that will not be concluded if it is not combined with a great restructuring of politics.

The great slogan, "From a society where producers are dominant to one where consumers are dominant," that the government and the Liberal Democratic Party are advocating can be changed to read, " Transforming a society where stock companies are dominant to a condition of balance taken between the nation (society), the enterprise, and the individual." As the "Ice Age" draws closer with the crash in share prices, a great restructuring of stock companies is necessary so that Japan's joint-stock companies that became bloated dinosaurs will not become extinct.

Dominant Corporate Groups Examined

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[Article by Journalist Tomokazu Ozono]

[Text] On 28 February, the same day that the Structural Impediments Initiative [SII] talks between Japan and the United States reached their climax, the "general stockholders meetings" for 1990 were convened. This was truly a significant day for "Japanese Corporations." Nearly 1,682 companies—90 percent of all businesses—held their general stockholders meeting on that day.

The time required for these stockholders' meetings averaged about 25 minutes. For stockholders, who are only able to take the floor away from management once a year, this is certainly not enough time.

During the course of these stockholders meetings, one of the companies that was most watched because of its involvement in the U.S.-Japan SII talks was the automotive parts maker, Koito Corporation. In June of 1989, the American mergers and acquisitions king, T. Boone Pickens, purchased Koito stock from the Mafu Automotive Group, becoming a major shareholder overnight with 26 percent of all issued shares. Taking advantage of this opportunity, Pickens demanded to take part in operational planning for such things as assigning managers to certain positions within the company. Koito, however, flatly rejected this demand. This case became a symbol of disagreement between the U.S. and Japan concerning shareholders' rights and company management.

Koito's general stockholders meeting was held at the Shinagawa Prince Hotel in Tokyo. Pickens marched into the meeting with his wife, 40 or 50 stockholders closely associated with him, and Kenji Ishizumi, his attorney.

"Go home!" "Yankee go home!" "You miserable foreigners cannot manage Japanese firms!" "The intellectual level of Americans is too low."

When Pickens demanded seven items pertaining to such things as increasing dividends and assigning corporate officers to certain positions within the company, a sudden, huge outcry rang out from the "special stockholders." (These special stockholders included *sokaiya*, persons who hold a small number of shares in a number of companies and attempt to extort money from them by threatening to cause trouble at general stockholders meetings.) After three hours, Pickens protested by saying, "This general stockholders' meeting is trying to exclude its American director. The meeting is a total farce." After lodging their protest, Pickens' corps got up and left the room.

Later, Pickens made a strong personal appeal to members of the press who were waiting outside the meeting room, saying, "I was humiliated," and "If this were America, they would have gone to jail." He was clearly angry when he said, "This will be reported to the U.S. Congress."

On 19 July, Pickens was invited to appear before a public hearing held by the Subcommittee on Consumer Affairs of the U.S. Senate Committee on Commerce, Science and Transportation. It was there that he gave the following testimony:

My proposals were completely ignored. They refused to have any dealings with foreign stockholders over the course of the three hour meeting, and continued the whole time to hoot, hiss, and jeer at us. Americans do not realize that elite Japanese corporations behave in such a noncompetitive manner. Because I have entered the board room over there, I know this to be the case. They were probably afraid of me, so they rejected me. However, if Japanese stockholders in U.S. companies were treated in the same way that I was in Japan, American directors would probably end up getting fired.

Shadowy World of the Giant Corporate Groups

Pickens' emphatic insistence on "shareholders' rights" ran up against the problem of "corporate affiliation" in Japan. The Japanese word *keiretsu* ["corporate affiliation"] has found its way into the English language, joining *Fujiyama, geisha, ninja*, and *sushi*.

Koito Corporation, which makes automotive parts such as headlights and reflectors, is "affiliated" with Toyota. Currently, Toyota owns 19 percent of Koito shares, the biggest shareholders after T. Boone Pickens, yet it has placed five or six members on Koito's board of directors.

On 3 May of this year, the Business and Commerce Subcommittee of the U.S. House of Representative's Committee on Legal Affairs held a public hearing on the violation of antimonopoly laws by foreign firms manufacturing products in the United States. Again, Pickens gave testimony on the "Toyota *keiretsu* problem." Prior to appearing before the House subcommittee, Pickens had conducted a survey of 2,400 executives at Japanese automotive components manufacturers. The survey was created by Pickens' attorney Kenji Ishizumi, a specialist in mergers and acquisitions (M&A).

Pickens himself presented the findings of his survey at the public hearing.

They certainly were frightened, judging from the responses to the questionnaire. One respondent said, "We are in the same position as peasants in the feudal era, who were 'not allowed to live, and not allowed to die.'" Another respondent said, "We must rationalize operations, complete production plans, and meet shipment schedules under pain of death." Still another said, "Because we are forced to work 2,700-2,800 hours a year, we have had suicides and deaths due to exhaustion."

Directly afterwards, a solitary figure in a black mask appeared, which caused a stir in the hearing room. The man was not a mafioso or an informant from a drug cartel. He was an executive at a Japanese automotive parts maker who had come to America at his own expense because the Committee on Legal Affairs had demanded the testimony of at least one of the participants in this survey.

The anonymous witness who appeared before the committee began his testimony by prefacing his remarks: "I cannot disclose my standing in the company for fear of retaliation afterwards (from a certain automaker)." The following are highlights from his testimony:

Because of the rapid appreciation in the value of the yen, the auto maker demanded a 30 percent reduction in costs over a three year period. When the yen began to depreciate, they kept their prices at the same levels and reaped huge profits which we did not share in.

When a parts maker purchased rolled steel through a trading company, the automaker with which it was "affiliated" fixed the price and received a 3 percent rebate from the trading company on the total sales amount. Because of such practices, we are forced to pay high prices for rolled steel.

If we do not get our costs down, the automaker will cancel its next contract with the auto parts maker. If we take unilateral action, the automakers conspire to boycott us.

When the anonymous witness remarked that "the Japanese *keiretsu* system will be exported to the U.S. along with the expansion in Japanese investment and manufacturing facilities in the United States," members of Congress leaned forward. The committee proposed a preliminary study of Japanese *keiretsu* practices by the Federal Trade Commission (FTC) in the wake of these disclosures.

Toyota, which had been singled out for criticism in attacks made by T. Boone Pickens, defended itself with an air of disappointment. President Shoichiro Toyoda said, "These statements are greatly exaggerated. There have been no unjustified price reductions for automotive parts. This talk of outside domination is absurd." Clearly, America has adopted an offensive strategy because of Pickens. For the past several years, when America turned its attention to Japan's domestic problems, it would focus on differences between domestic and overseas consumer prices, and Japan's abnormally high land prices. This would lead to analyses of pricing mechanisms in the distribution system and the real estate industry. As a result, what America hit on were the "rights of shareholders," on one hand, and the "rights of consumers," on the other. Shareholders and consumers are powerful in America, but weak in Japan. Put another way, corporations and producers are powerful in Japan, and weak in America. Is that why they seem to have given up on making their domestic corporations competitive overseas? America is seeking to "Americanize" the Japanese economy. Its intention is to weaken the power of Japanese corporations which it perceives as being too strong.

U.S. Trade Representative Carla Hills said, "The *keiretsu* system characterized by the cross-ownership of stock is the source of many evils." At the spearhead of these attacks are the six great corporate groups (Mitsubishi, Mitsui, Sumitomo, Fuji, Dai-Ichi Kangyo, Sanwa) and the three great nouveaux riches corporate groups (Toyota, Nissan, Matsushita). These groups are the symbols of the *keiretsu* system.

Zen Mondo With No Clear Meaning

The "Six Great Corporate Groups" that are the symbols of the *keiretsu* system, which America sees as the "source of many evils," are said to control the manufacturing companies of Japan.

In Osaka Bay, just off Senshu, is the new Kansai International Airport whose full story has recently come to the surface. It will be Japan's first off-shore airport with 24-hour operations. The construction costs for just phase one of the project (one runway), scheduled to be completed in the spring of 1993, amount to approximately 1 trillion yen. Because increases in public spending were mandated by the recent SII talks between Japan and the United States, two additional runways will be constructed at the new airport as part of the "overall plan."

The Kansai International Airport Corporation, unlike the public corporation that oversaw the construction of Narita International Airport, is an organization comprised of private companies. In addition, it is not just limited to airport functions. Group projects include an "Airport Town" currently under construction, and urban operations which will surpass the Shinjuku subcenter of Tokyo. A person in the local area even expects larger pigeons than Manhattan's to descend on the project.

However, the "Six Major Corporate Groups" flock has already come to roost in this century's greatest construction project. Each member of this group has "staked out its territory."

This group is comprised of 685 companies altogether. The Sumitomo Kansai Airport Council has a membership of 170 companies. The Kansai Airport Liaison Conference of the Sanwa Group is made up of 150 companies. The Mitsubishi "Blue Skies" Commission has 130 member companies. The Mitsui Kansai Airport Liaison Conference is made up of 119 companies. The Fuji Kansai Airport Round Table is comprised of 69 companies. Finally, the Dai-Ichi Kangyo Group's FKC Airport Policy Liaison Conference has 71 member companies.

This project marks the single greatest concentration of the Six Major Corporate Groups in history. There are some alarming statistics that have come out of this project.

Mr. Takehiro Asajima, who has headed the Kansai Airport Board of Inquiry for 20 years since the time Mitsubishi Heavy Industries first got involved, had the following explanation:

Almost from the time talk of a new airport was first heard in Osaka in the late sixties and early seventies, it was conceived of as a major project. At first, there were plans to build the airport off of Kobe Harbor. Mitsubishi Heavy Industries' shipyards were nearby, and this was a period of high growth. Only the heavy industry groups had the nerve to propose a single runway. Strangely, they turned to Mitsubishi in the very beginning. At the time, Sumitomo and Sanwa—the local groups—would give Mitsubishi's activities sidelong glances. However, when push came to shove, they moved very quickly to make the project a group affair. Mitsubishi ended up with the short end of the deal. (laughs)

When this kind of control over manufacturing companies is contemplated, nearly everyone calls to mind the prewar *zaibatsu* (giant family trusts). Postwar *zaibatsu* were created in South Korea, but in Japan the *zaibatsu* were dismantled by the General Headquarters (GHQ) of the U.S. Occupation Forces. Corporations such as Mitsui and Company and Mitsubishi and Company no longer exist. Unlike the Toyota Group and the Matsushita Group, the Mitsubishi Group is not held together by the *keiretsu* system of parent companies and subsidiary companies.

A study released in 1976 by the Economic Affairs Division of the Fair Trade Commission used seven characteristics to define a "Corporate Group." These seven characteristics were: (1) Regular meetings of company presidents; (2) Cross-ownership of stock; (3) Regular exchanges of business executives; (4) *keiretsu* financing; (5) Exclusive business relationships within the group; (6) New business ventures undertaken as a group; and (7) Use of such things as common trademarks. This is a simple definition.

These criteria fully describe the three great *zaibatsu* which were dismantled after the war but were reconstituted as the Mitsubishi, Mitsui, and Sumitomo corporate groups. Add Fuji, which reconstituted itself as a great postwar bank (Fuji Bank), Dai-Ichi Kangyo Bank, and the Sanwa industrial group, and the list of the Six Major Corporate Groups is complete.

To find out what has become of these six giant corporate groups, one only has to look at the figures. A study released by the Fair Trade Commission in May of 1989 entitled "On the Current State of the Industrial Groups" made public the percentage of the Japanese economy that is controlled by the six major industrial groups.

According to this study, a total of 163 companies (excluding financial companies) had presidents who belonged to one of the "committees" held by the six major industrial groups. This figure does not even make up 0.008 percent of all Japanese corporations. (There are an estimated 1.93 million incorporated companies in Japan.) However, in terms of capital, these 163 corporations make up 15.19 percent of the total Japanese economy. In terms of assets, they comprise 13.28 percent of the economy. In terms of sales, they command 14.6 percent of the national total.

The six major industrial groups permeate many manufacturing industries, but with the advent of the information age, their share of the economy has been dropping relatively speaking in recent years. Another study was released by the Fair Trade Commission in June of 1990 entitled "Government Policy on Future Competition in Distribution and Business Practices." The most recent data included in the study was from 1981, but these companies commanded 11.7 percent of the national economy in terms of assets, and 10.0 percent of the economy in sales. In addition, their "percentage of cross-ownership of stock" (for 1987) stood at 22.6 percent and their "percentage of executive officer exchanges" was 7.1 percent for the year.

However, one cannot get a feel for the actual state of affairs at the Six Major Corporate Groups from figures alone.

Hiroshi Okamura, a professor in the Department of Economics at Tatsudani University, has written two books on the subject. One is entitled *Mitsui, Mitsubishi, Sumitomo,* and the other, *Corporate Capitalism* [*Hojin Shihonshugi*].

In his interview with BUNGEI SHUNJU, Professor Okamura prefaced his remarks by saying "Japanese corporate groups and the Japanese corporate system are very complicated, so it is not easy to get a grasp on the current state of affairs." However, he continued:

"Top management at the former *zaibatsu* often say, 'The idea of great corporate groups is an illusion. We attach no importance to this idea.' However, I wonder what would have happened if the demand was made during the SII talks to open up their 'presidents' committee' meetings to the public, or if stock cross-ownership was ended because it had no significance. The meetings of these great corporate groups at Sumitomo Hall, Mitsubishi Mirai Hall, Mitsui/Toshiba Hall, and the Sanwa Midori Hall are very ostentatious. On the other hand, a look at the figures on business dealings within these great industrial groups shows that they are not really very significant at all. However, these figures come from a Fair Trade Commission questionnaire to these groups. There is no way around this. If an individual were to ask one of these groups to disclose the actual extent of their business dealings with each other, they would say that it 'couldn't be done.' Therefore, they have not had to respond to criticism."

Case in point. When BUNGEI SHUNJU asked for permission from the Sumitomo Trading Company to conduct interviews at the Whitewater Club [*Hakusuikai*], the presidents' committee of the Sumitomo Group, it was told, "The Sumitomo Group is not a corporate group." The group denied the existence of the Whitewater Club, the Five-Day Club (a gathering of vice presidents and board members from Sumitomo Group companies), and the Hot Spring Club (company directors). The public relations officer at Sumitomo's Osaka headquarters seemed perplexed by our line of questioning. "Are there really 20 companies represented on this Presidents' Committee? Are you sure you are talking about the Sumitomo Group?"

When the spokesperson was asked if these meetings would ever be opened to the public, his response had the characteristics of a Zen mondo. "We belong to the Sumitomo Public Relations Committee. This Whitewater Club, is it on a rotating system? You seem to know a lot about it. Right now, we (Sumitomo Trading Company) are its chief secretary, but Sumitomo Trading has no representative."

When other offices were asked about the various presidents' groups, like Sumitomo, many were reluctant to be interviewed. Those who did grant interviews gave very conservative responses to questions. The Public Relations Department at the Mitsui Trading Company, which sends a representative to the Two-Tree Club, said "the Presidents' Club meets in the executive suite to discuss such matters as group donations and common logos and trademarks."

In his book, *The Six Major Corporate Groups and the New Japan* published by Diamondsha, Professor Okamura explained the idea behind the prewar *zaibatsu*, which is relatively easy to understand. However, when he gives his explanation of the current corporate groups, the backdrop for the above-mentioned Zen mondo becomes somewhat more clear:

The prewar *zaibatsu* were pyramid-shaped with the zaibatsu family or *zaibatsu* company headquarters at the apex, holding stock in the affiliated enterprises beneath. However, because the stock holdings of the *zaibatsu* families were dissipated after the war when the *zaibatsu* were dissolved, there are no more *zaibatsu* headquarters. The remaining *zaibatsu* affiliates own stock in each other, and were reconstituted in a structure that fits this reality. If one looks at these groups as a whole, the "pyramid shape" has given way to a "ring shape" in which the *zaibatsu* affiliates own shares in each other.

To use Mitsubishi as an example, members such as Mitsubishi Bank, Mitsubishi Heavy Industries, Mitsubishi Trading Company, Mitsubishi Chemical, and Tokyo Fire & Marine Insurance all have numerous subsidiaries (*keiretsu*-style), but they own stock in each other. In a ring-shaped system, no matter how far around you go, you cannot determine who is the ultimate owner. The organization, in fact, just goes round and round."

There actually are committees for the presidents of member companies. However, these presidents' committees are based on the fact that these companies own stock in each other. They are not mere social clubs for company presidents. These company presidents are not the majority shareholders in their own companies. However, they represent stockholders who own shares in the other companies of their group. Therefore, these presidents' committees actually take on the role of major shareholders' meetings. They lend assistance to each other as major shareholders would, and they exercise some management control over each other. In fact, one could say that these presidents' committees are nothing more than a system of mutual management.

After the war, the banks (financial system) and trading companies acted as the organizers of the industrial groups, expanding operations and carrying out *keiretsu* financing. Following recent trends, these groups have continued to arrange cooperative large-scale financing for such ventures as petrochemicals, nuclear energy, urban development, information systems, biotechnology, and aerospace projects. These companies take an interest in each other because they share a common fate. When one takes a good hard look at the present state of these industrial groups, what is really impressive is that the massive scale of the Six Major Corporate Groups clearly begins to emerge.

On or about 1985, the "first year of consolidated figures" was proclaimed by large corporations placing "subsidiary companies" at the center of business strategies for the 21st century.

According to the 1990 edition of *Japanese Corporate Groups* published by Toyo Kaizai Publications, the 1,741 companies that were the subject of the study had over 11,270 subsidiaries. From 1983 to 1988, over 600 new companies were started each year.

According to Free Trade Commission definitions, a "subsidiary" is a company that is 50 percent-100 percent owned by a member (parent company) of a presidents' committee. An "affiliate" is a company that is 10 percent-49 percent owned by a member of one of the Six Major Corporate Groups.

If these definitions are used, 11,999 companies belonged to the Six Major Corporate Groups in 1987. This figure makes up 0.6 percent of all Japanese companies. In terms of capital stock, these companies accounted for 32.03 percent of the national total. In terms of overall capital, they comprised 26.95 percent of the national total. In terms of sales, these companies accounted for 25.2 percent of the total. It should come as a surprise that these corporate groups, which comprise less than 1 percent of Japanese firms, control from one-quarter to one-third of Japan.

Marubeni, the trading company that forms the core of the Fuji Group, currently has 174 subsidiaries. Tomohiro Tatsuno, president of Marubeni, said that he would like to "increase the number of subsidiaries to 700 in the next four years, employing 60,000 people in the Marubeni Group as a whole." (Marubeni itself employs 7,600 people.)

A spokesperson in the Affiliate Affairs Division at Marubeni headquarters said, "Our strategy for our subsidiaries is to pursue a marketing plan that promotes software and information services for an industrial society. We may even lay some groundwork so that our subsidiaries can start their own subsidiary companies."

Furthermore, as pointed out earlier, figures indicate that these parent companies do less than 10 percent of their business with other parent companies in the same corporate group in terms of sales and purchases.

For example, the president of the Toyota Motor Company technically sits on the presidents' committee of the Mitsui Group. However, the Toyota Group is a huge entity unto itself. Companies such as Koito Industries, Nippon Denso, and Aishin Precision Instruments are independent firms. Nevertheless, Toyota refers to them as "associate companies," and has organized 246 of these companies into the "Share-the-Wealth Club" and the "Prosperity Club" in true-to-form *keiretsu* fashion. These companies rely on Toyota alone for anywhere from 50 percent to 90 percent of their total sales.

In this kind of situation, Japanese start up firms face tremendous challenges entering the marketplace. This goes without saying in the case of foreign firms. First, the various metropolitan banks that form the core of these corporate groups are not financing no-name start up firms like banks in Europe and North America. Kazuo Inamori, Chairman of Kyocera, said in a newspaper interview:

"If you want to enter the field of information systems and telecommunications, it will be very difficult unless you are a regular member of one of the major industrial groups. For all intents and purposes, the road is closed to start up firms. New ventures are the exclusive domain of the large industrial groups. It may be necessary for us to take steps to remove some of these handicaps.

The Sumitomo Counteroffensive

We turn our attention again to the involvement of the Six Major Corporate Groups in the Kansai International Airport project.

Like "Mitsubishi Village" in Tokyo's Marunouchi District, "Sumitomo Village" forms a belt near Osaka's Yodoyabashi Bridge. The headquarters buildings of Sumitomo Bank, Sumitomo Finance, Sumitomo Chemical, Sumitomo Trading Company, Sumitomo Life Insurance—all members of the Whitewater Club (Presidents' Committee)—are all lined up side-by-side. The symbol of this place is "Sumitomo Unity" in contrast to the "Mitsubishi System" and "Human-Scale Mitsui."

BUNGEI SHUNJU interviewed Gako Habu, head of the Sumitomo Kansai International Airport Committee, and director of the Osaka Projects Division at Sumitomo Trading Company.

It was terrific to see the whole Sumitomo Village rally around as soon as one voice was raised. Currently, 40 companies from the Sumitomo Group are participating in this project. The number of companies involved in the airport project totals 178. This is the first time so many companies have been involved in a construction project. The original reason for the formation of this council was to keep the say of the Ministry of Transport to a minimum in the construction of the new airport in the Kansai region. Because of this, we have had to come together as a group to handle opposition. What I mean to say is that the role of the committee is already over, but it has been said that "there is very little work on the airport project unless you were on one of the various committees." Even now there are companies that still want to join the group. This is because it would be a great opportunity to expand business dealings with these various groups' banks. Am I right? We are, above all, an information center for the 178 companies working on this project.

The other major corporate group based in the Kansai area is the Sanwa Group. Unlike the other groups, which are led by their trading companies, the Sanwa Group is directed by the bank. Shinji Kobayashi, head of the Sanwa Group's Kansai Airport Liaison Committee, had this to say about his function:

Above all else, we are a source of information. Just the airport island alone will have all the functions of a metropolis with terminals, hotels, and freight and information centers. The effects of the construction of the new airport will be felt not only on its satellite towns, but throughout the whole Osaka Bay region. We have, of course, established subcommittees to deal with various issues. However, as far as actual business is concerned, we have no idea what each individual company is doing.

"A" Ward, the commercial zone, is considered the finest property in the new airport satellite town. This August the councils began taking petitions for the sale of lots in this ward. (The average price was 4 million yen per tsubo.) At that time, there was no room in the process for new, independent firms or small to mid-sized companies. By the end of the year, the complexity of the preliminary petitions, entry petitions, and lot-share petitions had eliminated all but the large corporate groups from the bidding process.

The airport island and the main bridges have been completed. Construction of airport facilities such as the terminal and air cargo buildings are under way. Food, transportation, finance, and information services are being readied. A spokesperson at Daisei Construction, a Fuji Group company, said "Because the Fuji Group doesn't have a department store chain like the Mitsui Group (Mitsukoshi) or the Sanwa Group (Takashimaya), we have had to look at development proposals to expand the group framework."

A foodstuffs producer in nearby Kishiwada City said: " Once the Six Great Corporate Armies moved in, they controlled everything from start to finish: from the planning stage to development and construction. The buyers and the sellers were members of the same groups. In the airport terminal building restaurants, the armies are trying to procure everything down to the last onion and pair of chopsticks. Because we do not belong to one of these groups, we can only hope for a subcontract or part of a subcontract. This was supposed to be a 'cosmopolis,' but it seems as though we have entered the realm of the 'Kingdom of Sumitomo.'"

According to the concept of the cosmopolis, the three satellite towns near the airport (Kishiwada, Kazuizumi, and Izumisano-sanshi) were to serve as the base for businesses supporting airport functions. However, in the ensuing struggle among the three Osaka-based corporate groups (Sumitomo, Sanwa, and Daiwa), Sumitomo bought up the three towns. Kishiwada, in particular, has become the base of Sumitomo's operations. Eleven Sumitomo Group companies are being enticed into the "cosmopolis" to join construction projects.

In the Kansai Region, when they say "trade" they are referring to the Sumitomo Trading Company. When they say "chemical," they are referring to Sumitomo Chemical. The Sumitomo Group's Committee of Presidents (The Whitewater Club) is not as large as the Mitsubishi Group's. However, together, Sumitomo Bank and the Sumitomo Trading Company are Number One in terms of profitability, and the Sumitomo Group as a whole is considered the most profitable of the groups. On the other hand, Sumitomo Bank has been accused of not wanting to become a money-center bank, and preferring not to accept financing when it can afford to.

The Sumitomo Group's Whitewater Club has only 20 member-companies—the smallest of the Six Major Corporate Groups. Direct descendants of the old *zaibatsu* (18 of the 20 companies carry the Sumitomo name), the Sumitomo Group is very tightly knit. However, through aggressive financing and exchanges of up to 250 corporate officers with other businesses in its "territorial wars," the Sumitomo Group has grown to include Matsushita Electric, Debikari Industries, Asahi Chemical, Daishowa Paper, Taisho Pharmaceuticals, Bridgestone, Toyo Industries (Mazda), Komatsu Industries, Sanyo Electric, JVC, Itoh, and Asahi Beer.

Very recently, the Sumitomo Group celebrated the 300th anniversary of its origins as a copper mining operation. To commemorate the event, the Sumitomo Foundation, Sumitomo Hall and a library were established in rapid succession. Saying "we will not extend our hand to a project that is not involved in commerce," the Sumitomo Group has begun to bring change to the mercantile traditions of Osaka.

Because of trade friction between the United States and Japan, and the resulting pressure put on Japan by the United States, the Kansai International Airport was the first of the "public works projects" started under the Nakasone administration. This project has become just another place for the major corporate groups to focus their huge stores of investment capital.

The major corporate groups have been looking for other large-scale, national projects. The "approach of high waves" has been spotted in Tokyo and along the Nagoyo-Osaka-Kyoto corridor.

In the Kanto region, the "Tokyo Teleport Town"—a subcenter development along Tokyo Bay—has been hailed as the "final frontier" and a "futuristic 21st century city." This ultra large-scale project will cost 4.1 trillion yen to build. When it is completed, the Tokyo Teleport will have a daytime population of 110,000 people and a nighttime (i.e. resident) population totaling 60,000. This project is scheduled for completion at the beginning of the 21st century, but construction has already started, and the public contribution to the companies that are planning to develop the site was made in June of this year.

A majority of the Teleport Town is metropolitan land. However, from the time the concept of the Teleport Town was first laid out in the mid-eighties, various government agencies and corporations have been hammering out development plans for the remaining land, one after the other. Governor Suzuki of Tokyo Prefecture appeared to have been upset by this display on several occasions. At one point he exclaimed, "I am not going to allow you to be so greedy with other people's land!"

However, Tokyo Prefecture cannot dedicate all of its resources to this 4 trillion yen project. It has set up third-party companies such as the "Tokyo Bay Subcenter Development Company" and the "New Tokyo Bay Area Transit Company" to handle the development. But, in addition to the prefectural government and public companies (Tokyo Electric, Tokyo Gas, and the Industrial Bank of Japan), investors in these companies include Fuji, Daiichi Kangyo, Mitsubishi, (Taiyo-Kobe) Mitsui, Sumitomo, and Sanwa—the metropolitan and trust banks of the Six Major Corporate Groups.

Entirely independent of these third-party companies are the development companies begun last June to handle the public contributions to this project. A plan was proposed by 80 groups and over 300 companies at last count which included "Criteria for Groups Presenting Development Plans." The deadline for public funds was the end of August. Compensation will be carried out in October. The process was also opened to foreign firms. However, the U.S. Embassy complained to the Tokyo Prefecture government that the "period for public funding was too short to allow for participation by foreign firms." Lieutenant Governor Yokota of Tokyo Prefecture responded by saying, "The schedule was prearranged, and an extension in the time limit for public funding is impossible."

Not only were foreign firms left out of the process, but mid-sized Japanese firms were also denied public funding, one after the other. When these companies asked why they were denied funding, many were told that the costs of project development had been high, and that the large corporate groups had been working on their master plans for two years. They were told that at this point, it was too late to enter into the project.

The major shareholders in the third-party companies had connections with the Big Six. The groups that received public funding appear to have all been in it together. The Total Area Support Committee is made up of 61 companies in the Mitsui Group. The Tokyo Teleport Development Council is actually 67 companies from the Fuji Group. The Tokyo Humania Research Committee is comprised of 88 companies from the Dai-Ichi Kangyo Group. The Big Six themselves are in charge of the Tokyo Teleport Town project.

It is doubtful that the idea of a new Chubu International Airport in the Nagoya area will receive government approval. However, we were surprised to hear what Gako Habu, head of the Sumitomo Kansai International Airport Committee had to say about the project: "Eleven independent groups—including Tokai Bank, and NTT and New Nippon Steel from the Toyota Group—held a meeting in June and began putting together plans. Nobody from the Big Six was invited."

Since the Second World War, the Japanese economy has received generous government protection through the so-called "convoy method" in which banks focused capital on expanding the manufacturing sector. Because of this policy, corporate groups based on the *keiretsu* of Fuji Bank, Sanwa Bank, and Dai-Ichi Kangyo Bank began to come into existence around the mid-sixties. Today, these banks have surpassed the scale of the old *zaibatsu* in the number of members they have on their committees of presidents, in the amount of capital and assets that they control, and in terms of sales.

The Lamblike Mitsui Man

Once again this spring, the "Big Wheel Club," which is centered around Daiwa Bank, held its annual meeting. A spokesperson in the Daiwa Bank public relations division downplayed the event. "It is nothing more than a social gathering of companies to discuss the codevelopment of a flower museum pavilion. It would have been too much trouble to do this in conjunction with other corporate groups."

The old *zaibatsu*—especially champion wrestlers like Mitsubishi and Mitsui—appeared to have lost some ground to these new, aggressive, up-and-coming banking groups in recent years. However, in the past couple of years, these giants have begun to awaken from their slumber.

The Mitsubishi Group has made several ambitious moves: (1) Mitsubishi Real Estate purchased the Rockefeller Group's 51 percent share in Rockefeller Center for 120 billion yen; (2) Mitsubishi Metals and Mitsubishi Mining formed a joint-venture to make cement; (3) Mitsubishi Petrochemical invested 100 billion yen in the construction of the Ichiren Center; (4) The Mitsubishi Trading Company acquired Astric Chemical of the United States for 130 billion yen; and (5) Mitsubishi Heavy Industries, Mitsubishi Electric, Mitsubishi Motor Corporation, and the Mitsubishi Trading Company signed a joint-cooperation pact with Germany's Daimler-Benz Group.

The Mitsui Group was also active: (1) Mitsui Bank merged with Taiyo-Kobe Bank; and (2) Taisho Fire and Marine changed its name to Mitsui Marine.

It appears as though the Mitsubishi Group and the Mitsui Group took these actions in response to aggressive moves made by the Sumitomo Group concerning the Kansai International Airport project.

When Mitsubishi Metals and Mitsubishi Mining announced their joint-venture to make cement, Mitsubishi Trading Company chairman, Kohei Mimura—speaking on behalf of the Mitsubishi Group Council of Presidents, the "Friday Club"—said with deeply felt emotion, "With this action, the Post-War Mitsubishi System has at last come to an end."

What was meant by this statement no one seemed to know. An exclusive BUNGEI SHUNJU interview with Chairman Mimura appears at the end of this article. But for now we turn our attention to the activities of the Mitsui Group.

July 11th was an auspicious day. Mitsui Trading Company threw a lively inauguration party for President Naohiko Kumatani and Chairman Hiroichiro Ejiri in the Heian Room at the Hotel Okura in Tokyo. Over 2,300 people were in attendance. It was appropriate that all of the big names in government and finance were there to witness the official announcement of "Mitsui Worldwide."

Goro Koyama (81), former director of Mitsui Bank, and Eiyu Edo (87), former chairman of Mitsui Real Estate were also in attendance. The Mitsui elders, when pressed to say something, said, "Today's Mitsui man is too soft." However, given the repeated scandals that the group has found itself embroiled in—the Mitsukoshi/Okada affair, the Toshiba CoCom [Coordinating Committee for Export Controls] affair, and the IJPC [Iran-Japan Petroleum Chemicals] incident to name a few—one could say that the "hell-bent" reputation of the "Mitsui man" has been reinforced.

In order to offset this reputation, quiet, unassuming men have begun to appear in top management positions in the Mitsui Group. This stands in direct contrast to the aggressive management style of the Mitsubishi Group.

Compared to the prewar Mitsui man, all this is not very interesting. Goro Koyama is said to have brought about the "Mitsui Renaissance" and the "Mitsui Reorganization," but April 1990 saw the creation of Taiyo-Kobe/Mitsui Bank. Overnight, Taiyo-Kobe/Mitsui Bank became the second largest bank in Japan in terms of capital—behind Dai-Ichi Kangyo—and the largest bank in Japan in terms of branch offices.

Mitsubishi Bank, Sumitomo Bank, Fuji Bank, Dai-Ichi Kangyo Bank, and the various Sanwa Banks all formed the nucleus of their respective corporate groups, and were the five largest banks in Japan in terms of capital reserves. In contrast, Mitsui Bank was ranked 7th in terms of capital, and 9th in terms of the number of branch offices. Furthermore, Mitsui Bank's position in the industry was deteriorating. Fuji was Mitsui Trading Company's main bank for a period of time in the late seventies, such was the pathetic state of Mitsui Bank. The bank's weakness was the main reason for the Mitsui Group's decline.

For Mr. Koyama, who remembered Mitsui Bank's preeminence during the prewar and wartime years, this situation was unpardonable. At one time, Mr. Koyama called for a union with the Mitsui Chemical group. While memories of the prewar *zaibatsu* may be strong, the

U.S.-Japan SII talks were on Mr. Koyama's mind when he was interviewed by a business magazine:

"The Japanese *keiretsu* system has certainly become a problem, hasn't it? During the prewar era, it was necessary to shift the focus of capital investment away from commerce in order to finance the growth of manufacturing. The cross-holding of stock by companies gradually coalesced into the *keiretsu* system. The largest of these groups adopted the *zaibatsu* structure. In the end, they were very similar to present-day owners of holding companies in the United States and Europe.

"Under the postwar antitrust act, the cross-ownership of stock was no longer permissible in Japan, even though it was legal in the United States and Europe. Though it is called the *keiretsu* system, it (the cross-ownership of stock with the framework of an industrial group) is all that remains of the old *zaibatsu*."

At this point Mr. Koyama said, "Japan will soon have to consider adopting a concept like the holding company." But does the newly rejuvenated Mitsui Bank intend to become the Mitsui & Company from days of yore?

Akira Koyashida, director of the Institute of Economic Studies which publishes the *Corporate Affiliations* annual report, had the following comment:

"The Mitsui Group recently created a 'business affairs committee' to oversee the management of the group's activities. The group, which was at one time thoroughly fragmented, is now enthusiastically striving for unity. Regard for the old Mitsui name and interest in resurrecting the old Mitsui *zaibatsu* are running high."

In order to get an opinion from middle management at Mitsui, BUNGEI SHUNJU interviewed Kambahiro Terazaki, senior manager of the Public Relations Department at the Mitsui Trading Company.

"Mitsui has a long history. Ever since NEC (a member of the Sumitomo Group) exported its first product, we have handled everything for them. It was our intention for it to break with the Sumitomo Trading Company. Because Mitsui is its main bank in Tokyo, Suntory (a member of the Sanwa Group) has expressed an interest in joining the Mitsui Group. The other groups are getting stronger, but not to the point of reconsolidating and restoring operations. The Mitsui name is appealing. We will be as strong as those who came before us."

They have no direct influence over operations at all, but the old *zaibatsu* families still do exist. For Mitsui, there is the Mitsui family (11). Mitsubishi has the Iwazaki family, and Sumitomo has the Sumitomo family. They regularly attend top management meetings at the large corporate groups.

Chairman Mimura of the Mitsubishi Trading Company once said, "The Iwazaki family is the imperial family of the Mitsubishi Group." Mr. Yadazu, former chairman of the Mitsui Trading Company, also said, "We respect the Mitsui family as we honor the trademark of the company. It is the same thing as loving of one's hometown, or revering one's ancestors." Mr. Koyama believes that the *keiretsu* system is the result of the "Japanese sensibility"—that it might have derived from Japan's traditional culture which has been called a "village society" and "hometown-minded."

Marriage Counselors and the Human Resource Bank

Since Japan entered its period of high growth, it has been called a "kingdom of companies." Today, reaction to the power of corporate Japan, which is focused on the Six Major Corporate Groups, has shifted from "envy" to "criticism." This is not just limited to opposition from overseas. More and more, smaller companies and consumers are voicing complaints. The *keiretsu* system cannot be attributed to Japan's "village society," or the "hometown-mindedness" of the Japanese people. Kanichi Imai is a professor in the Business Department at Hitotsubashi University and is currently serving on the Inquiry Commission for Corporate Structures at the Ministry of International Trade and Industry (MITI). He is the author of the book, *Organizing Networks*. As Professor Imai points out, "Both administrative guidance and the *keiretsu* system have 'invisible constraints.' Excess competition between the corporate groups crowds out foreign firms and new start-up firms."

Seiro Ishizuka left the Mitsubishi Trading Company to head up the Mitsubishi Market Research Center. This center comes up with marketing plans for the various businesses in the Mitsubishi Group. He had this to say about the dynamics of the large corporate groups:

"After the old *zaibatsu* were dismantled, there was an increase in centrifugal force. However, soon after, there was a move to centripetal force. Now we strongly anticipate a return to centrifugal force. Since the war, the corporate groups have been shifting back and forth between these two directions with increasing force."

Professor Okamura called these two forces "internal unity" and "external expansion." Internal unity includes business transactions among group members, cross-ownership of stock, and the exchange of corporate officers. External expansion describes individual companies on the committees of presidents that create their own *keiretsu* systems and hierarchies of subsidiaries. Recently, this external expansion has included such things as overseas mergers and acquisitions.

This composite is not visible to the naked eye. In fact, it does not even appear in figures. The "soft chains" that bind Japanese companies go down clear to the roots.

Internal unity can be found in such things as the "Buy Mitsubishi" movement, in which the various companies in the group are encouraged to purchase each others' products. This calls to mind the "sign language" of the past, and has drawn criticism from North America and Europe.

Even to this day the objective of the Fuji Group's "Roundtable" is to support patronization among member companies.

A manager at Marubeni said, "There are many Fuji men in their forties who will only drink Sapporo Beer. Since the group car company is Nissan, if an employee at one of the companies in the group wants to lease a car for an acquaintance or a family member, we have a system in which he can put down 10,000 yen. Twice a year, after employees receive their bonuses, we hold a Fuji product fair. From the time a new employee signs his contract, he is unknowingly encouraged to patronize other companies in the group."

It is said that you can tell what corporate group a man belongs to by what brand of beer he drinks. The Mitsubishi brand is Kirin. The Sumitomo Group drinks Asahi. Employees at companies in the Fuji Group prefer Sapporo, and Suntory is the beer-of-choice at Sanwa. The Mitsui Group is not affiliated with a beer company, but there are many there who will drink anything but Kirin (the Mitsubishi brand).

The groups also have strong loyalties when it comes to automobiles. Mitsubishi has Mitsubishi Motors. Sumitomo has ties to Mazda. The Mitsui Group prefers Toyotas, and the Fuji Group supports Nissan. Sanwa is affiliated with Daihatsu, and Dai-Ichi Kangyo has stakes in Isuzu. An executive at the Sumitomo Trading Company said, "You cannot buy a car in Aichi Prefecture unless it is a Toyota." A spokesperson at the Mitsubishi Sales Corporation said, "At Hitachi City, the billboards say Hitachi, but we sell Mitsubishi electronics inside." However, he admits that they do not do very well in the "moat towns" surrounding these corporate castles.

The internal unity and external expansion in terms of money and material has reached absurd proportions of late. College students, who are completely immersed in a divergent education, are later "enclosed" in a divergent corporation.

The competition to "harvest green rice" (i.e. sign employment contracts with college students at the end of their junior year) has intensified among the large corporate groups in recent years. At the Big Six, this includes not only the parent companies, but also extends to the subsidiary companies in their *keiretsu* systems. Last year, companies such as Mitsubishi Trading Company and the Mitsui Trading Company did not compete head-to-head with their hundreds of subsidiaries. Instead, they held "General Information Seminars" together in large public halls in order to bring new graduates into the corporate fold. However, when labor unions such as Nikkeiren claimed that these practices broke corporate agreements prohibiting the "rushing" of students, the corporate groups changed the titles of their "general seminars" and "patronage associations" and focused on simply hiring enough personnel. This policy included recruiting people in their prime. Small- and mid-sized companies have been hit hard by the labor shortage. Some of them can no longer continue profitable operations. For these companies, the recruiting activities of the large corporate groups directed at young people is a life-or-death issue. The Mitsubishi, Mitsui, Fuji, Dai-Ichi Kangyo, and Sanwa Groups have all invested money in the creation of marriage counseling centers. These centers are named "The Diamond Family Club" (Mitsubishi), "The Mitsui Group Marriage Counseling Center," "The Fuji Family Club," "The Heart Club "(Dai-Ichi Kangyo), and the "Green Club Bridal Center" (Sanwa). In addition, the Big Six have recently founded human resources (executive exchange) companies in rapid succession.

For example, the Mitsubishi Trading Company and the Mitsui Trading Company established their human resources companies with the objective of assisting "able-bodied" persons in their family of companies to start new businesses when they are in their prime. Two other objectives of these human resources companies are to extend the desire of employees to continue working, and "to form a bridge" connecting subsidiaries to an internal corporate labor pool. Both Mitsui and Mitsubishi insist that these are "shoulder-clapping operations" meant to encourage and provide incentives to employees. Furthermore, both corporations have established recruiting companies for women who want to reenter the work force after having quit to get married. They have also formed "companionship" companies.

BUNGEI SHUNJU asked the president of an independent executive recruiting company that has been in business for over 10 years what he thinks of these moves on the part of Mitsui and Mitsubishi.

"Until recently, the general trading companies hadn't been doing this kind of work. Without bothering to establish policies for mandatory retirement or the exchange of human resources, they had been trying to expand group operations through such things as marriage counseling centers. In the subsidiaries, they have been recruiting relatives and people from their hometowns. As far as we are concerned, these recent developments are a threat."

Aside from this matter, the pay differential between employees in large corporations and smaller companies has started to widen. According to the Ministry of Labor's "Statistical Report on Basic Wage Structures," if the pay scale at large corporations (those with 1,000 or more employees) was set at 100 on a scale of 1-100 in 1983, then the pay scale at mid-sized companies (those with 100-999 employees) would have been at 91.0, and the pay scale at small-sized companies (those with 10-99 employees) would have been at 48.9 on the scale. By 1988, the figure for mid-sized companies had plummeted to 78.6, while the figure for small companies remained even at 48.7 on the scale.

June 8th was the second Friday of the month. The Mitsubishi Bank headquarters building, the Mitsubishi Building, the Mitsubishi Heavy Industries Building, the

Mitsubishi Electric Building, and the Meiji Insurance Hall form a stand of buildings in the Marunouchi District of Tokyo's Chiyoda Ward. This collection of buildings is called "Mitsubishi Village." A meeting of "friendly affiliates bound together by Mitsubishi capital" was held on this day, and a show of "pan-Mitsubishi behavior" was demonstrated. Amid claims that Mitsubishi Heavy Industries was making decisions without consulting others, that a fight with Mitsubishi Bank's Sugenuma had cost someone a young manager, and that the unjustifiable dismissal of an 18-year veteran had been a breach of faith on behalf of Mitsubishi Electric, it appeared that the scale of the demonstrated unity had been reduced as the "puppies yelped before the sacred image."

However, it is interesting to note that at this meeting of the "Friday Club" a petition was placed before the presidents of the Mitsubishi Group, calling on them to "put an immediate end to the in-fighting that had consumed the group."

Sho Sugeno, secretary of the Mitsubishi Heavy Industries Chapter of the All-Japan Union of Shipbuilders and Machinists, had the following remark:

"We hold two or three rallies a year in conjunction with fights concerning Mitsubishi capital. This is usually because the top management is going to run up against the Friday Club. We are told that the Friday Club is just a social gathering, but we know this is camouflage."

Naturally, when this petition was placed before the Friday Club, the final result was that it was shelved at the office level. Little seemed to result from this except for the exchange of some bad words.

Mitsubishi: "The Company That Goes Where the Nation Goes"

BUNGEI SHUNJU met with Kohei Mimura, chairman of the Mitsubishi Trading Company, who assumed his position as a representative to the Friday Club in July of last year. Three generations of Mimuras have served Mitsubishi, starting with the chairman's grandfather. As he told the BUNGEI SHUNJU, "I am a pure Mitsubishi man." His two sons are also on the fast track within the Mitsubishi Group, serving Mitsubishi Bank and Tokyo Fire and Marine.

"The Mitsubishi Group goes where the nation goes." That is absolutely true. This has been true since the beginnings of the old *zaibatsu*, first in heavy industry, and later in the production of military armaments. Mitsubishi had a very different start from Mitsui and Sumitomo, both of which began as trading houses. When it came to our trading house, we had a three-point company policy: Public service, management excellence, superior industry and trade. What I mean when I say "the Mitsubishi Group goes where the nation goes" is that the Japanese nation-state was born out of industry and trade. This was also true of the production of military armaments. East-West assistance is fine and good, but Japan has its own Self-Defense Forces, and we have a (business) role in defending the nation."

Chairman Mimura spoke of nothing but the nation and military armaments. However, when BUNGEI SHUNJU visited the Mitsibushi Heavy Industries Nagasaki Shipyards, we were surprised to discover the three diamonds symbol of Mitsubishi next to an imperial chrysanthemum crest on a stone commemorating the completion of the main facility.

[BUNGEI SHUNJU] In April, when Mitsubishi Metal and Mitsubishi Mining announced their intention to enter into a joint-venture to make cement, you said, "The postwar period is over for Mitsubishi."

[Mimura] "According to the postwar General Headquarters (GHQ) of the U.S. Occupation Forces, the Mitsubishi Trading Company, Mitsubishi Heavy Industries, and Mitsubishi Mining did not want to be separate companies, but they were separated. We have returned to our past with the joint-production of cement by Mitsubishi Metals and Mitsubishi Mining."

[BUNGEI SHUNJU] The Daimler-Benz agreement, announced in the midst of the U.S.-Japan SII talks, must have taken America aback.

[Mimura] "The integration of the European Community, the dramatic changes in the Soviet Union and Eastern Europe, and the unification of Germany are all signs of a great historical shift. Mitsubishi is going to play its part in the globalization of economics through overseas partnerships and mergers and acquisitions. If this happens during trade talks, so be it."

[BUNGEI SHUNJU] The American mass media characterized this agreement as a "joint-venture between Mitsubishi, the makers of the Zero, the Daimler-Benz, the maker of the Messerschmidt," and a "new German-Japanese Axis alliance." Do you think this is alarmist?

[Mimura] "Senator Danforth, when he found out about our agreement with Daimler-Benz, naturally focused his attention on us saying, 'Japan has made mincemeat out of every American industry from textiles to automobiles. The aerospace industry is next.' I think this was an absurdly threatening stance. (laughter) For starters, he doesn't even know what we have done. We will continue to expand our business dealings with America. Once we explain the agreement, I am sure we will get their consent. The details will be released shortly."

Chairman Mimura was able to keep his composure throughout the interview until the subject turned to the *keiretsu* system. Then he got angry.

[Mimura] "First, I would like to get one thing straight. The term *keiretsu* applies to the hierarchical structure of companies seen in the automotive industry and the electronics industry. The *keiretsu* system does not pertain to the situation with the major corporate groups. This is impossible in our case because antitrust laws prohibit holding companies in order to prevent the reemergence of the old *zaibatsu*. Because the people in the mass media have not done their homework, great misunderstandings have arisen, and these misunderstandings have been communicated to the Americans."

[BUNGEI SHUNJU] Chairman Mimura, your opinion on whether the Friday Club is like a conning tower on a submarine.

[Mimura] "Come on! The Friday Club serves as a vital social function. It is a chance for us to meet and talk openly. It is the big social event for the presidents of group companies out in the hinterlands. When new companies are announced, we decide how they are to treat the Mitsubishi logo. In addition, we sometimes invite over learned professors, and discuss world events with them."

[BUNGEI SHUNJU] You said that the American side must look around for the minutes of its meetings.

[Mimura] "We make our meeting minutes public every month. If they want us to show them these minutes, we will provide them with a copy every time. However, we haven't heard from them yet."

[BUNGEI SHUNJU] Chairman Mimura, you once compared the Friday Club to the family reunion of an extended family.

[Mimura] "That's right. This is because the family that Mr. Iwazaki started has grown very large. Sometimes, the main branch of a family will rent out a large hall and invite all the relatives from far and wide to a family reunion. At such events, people can speak freely with other members of the extended family."

Does he mean to say that in the world above the clouds the alpha and omega of all things is decided?

Enactment of Product Liability Law Expected

WA13111610 Tokyo MAINICHI SHIMBUN in Japanese15 Oct 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] On 15 October the Ministry of International Trade and Industry [MITI] completed plans to introduce in FY1991 a product liability [PL] system, a decisive factor in consumer protection. The PL system is a means of redress making it easier for a consumer to claim responsibility on the part of manufacturers in cases where the consumer is injured or suffers property damage as a result of defective products. Although Western countries are ahead of Japan in the introduction of such measures, voices have been raised in Japan as well supporting such a system, amidst repeated accidents with kerosene heaters and other products. Nevertheless, it is expected that industry will strongly resist introduction of the system due to concern over the increased burden compensation expenses would entail.

For this reason, MITI at present is thinking about setting up a PL system research group in its affiliate, the Japan Association of Industries. While listening to the opinions of manufacturers' representatives and consumer groups, it is also considering adjustments that will make it easier for industry to accept the system. Specifically, it is considering establishment of a fund that would help industry cover compensation costs, and is considering a PL insurance system for manufacturers.

MITI has begun preparatory work toward enacting a PL law with related government agencies engaged in parallel efforts. These include the Economic Planning Agency, which is studying the creation of a PL system from the consumer side, and the Ministry of Health and Welfare, where, if the PL system is established, problems may arise in reconciliating it with other legislation, such as law on medicines.

In enacting the legislation, MITI is inclined to pattern it after the European Community's [EC] PL law. Basically, the EC model, like that of the United States, adopts in principle a system of strict liability which fixes responsibility on the corporation, even if no error has been made, in cases where a defect exists in the product. In the United States, however, because liability laws are too severe, PL lawsuits have multiplied and companies have lost the will to develop new products. This "PL crisis" has become a social problem. For this reason, the EC has given to each country the right to immunity from liability with respect to "developmental dangers"—defects which the manufacturer could not have anticipated when the product was shipped. It also allows for establishing upper limits to damage compansation awards, so that the corporation's burden can be reduced.

In the past in Japan there have been cases where corporations were assessed severe liabilities—such as the Thalidomide incident involving medicine—that in fact were equivalent to a PL system. However, in other cases of product liability, bringing suit itself has been difficult. The plaintiff must show a cause and effect relationship between the product's defectiveness and the damage suffered, and prove the corporation's culpability.

Future of Securities Issuance Market Discussed

912A0002A Tokyo EKONOMISUTO in Japanese 18 Sep 90 pp 86-87—FOR OFFICIAL USE ONLY

[Article by EKONOMISUTO economic reporter Jiro Akagi]

[Text] **Better To Close Up Shop**

"These are sad times for the stock market." The person in charge at the Kosumo Oil Company, who revealed a wait-and-see attitude concerning the issuance plan for Euro-denominated warrant bonds on 29 August, spoke succinctly. The company's procurement plan called for about Y50 billion. The plan was to apply the funds toward investment in plant and equipment. However, the closing stock price on that day was Y701—a drop of about 30 percent from the roughly Y1,000 in early July when equity financing was reopened, and a judgment was reportedly made that "it was not the proper time for fund procurement."

Although the company insists that "because we will obtain the necessary funds through loans, we will not reexamine our plant-and-equipment investment plan," it will probably be unable to avoid the heavy pressures of interest-rate burdens, in addition to growing costs as a result of rises in the crude oil prices.

Dark clouds have reappeared above the securities issuance market that had just reopened in July. In early July when equity financing was reopened, the Tomoku Company Ltd.—a major manufacturer of corrugated cardboard, and Daikyo and Sumitomo Metal Industries—major builders of condominium apartment buildings, rushed to decide on the issuance of convertible bonds [CB's] and warrant bonds. While uniformly wearing smiles on their faces, they showed relief that "we have finally gained a firm footing for our funding plan." Only two months later, the environment for corporate funds procurement drastically changed.

It was triggered of course by the Iraqi military invasion of Kuwait before dawn on 2 August. The Tokyo Securities Exchange, turned off by the inflationary pressures of skyrocketing crude prices and the rise of interest rates, nosedived. The average stock price of the Tokyo Exchange, which was on a Y30,000 level prior to the invasion, fell below the Y28,000 level on 7 August "like sinking into a bottomless bog" (a major securities company executive). It subsequently continued to drop Y1,000 at a time, falling to the Y26,000 level on 13 August and to the Y25,000 level on 22 August. It has continued to set new lows since the beginning of the year. It fell further to Y23,737 (closing price) on 23 August, which was a 39-percent depreciation from the peak price at the end of last year.

This rate of decline exceeds not only the 37.4-percent dive during the initial oil crisis from 1973 to 1974, but also the 37.8-percent drop in 1953 during the Stalin regime. These circumstances have raised voices of desperation even among the front-line securities dealers who contend that "it is advisable to close down the securities companies in order to avoid further fluctuations in stock prices."

Seeking to halt the historical decline, the Finance Ministry decided to ease restrictions, under the "30-percent rule," on the power of securities companies to buy and sell large amounts of stocks of certain corporations, but the prices have continued to be sluggish. With the fifth raise in the discount rate on 30 August, "the last of the negative forces appear to have been exhausted for the time being," and the average rose to Y26,000 at the end of August. However, it remained below the Y30,000 to Y31,000 level of this spring when the issuance market was de facto closed.

If CB's and warrant bonds as potential securities are issued in bulk volume into such a nervous market with little will to buy, the market conditions could deteriorate further. Also, increased issuance costs have dealt a severe blow to equity financing. For example, the standard interest rate for domestic convertible bonds, which was on a two-percent level in February of this year, jumped to six percent in August. The reason was that, with the interest rate hike and sluggish stock prices as a backdrop, such institutional investors as life insurance companaies have strengthened their posture that "there is no profit in buying unless coupons (nominal interest rates) are raised."

This summer, prices of CB's that were issued with nominal interest rates of about five percent dropped across-the-board to below their par value (Y100) immediately after listing. Many CB's depreciated to the Y80 level during a period of ten days after listing.

To the investors who seek profits through short-term use of capital, "ordinary corporate bonds with high direct interest are more profitable." Investors with long-term investments aside, CB's have become less attractive than heretofore.

Impact on Plant-and-Equipment Investment?

Corporate equity financing through paid-in capital increases, convertible corporate bonds and warrant bonds have shown remarkable growth since FY87, due to its considerably lower costs compared to bank loans.

A majority of the funds procured at low cost are directed toward loan repayment and investment in plant-and-equipment. It has been a factor in not only improving the corporate financial constitution, but in also helping continued business prosperity.

During FY89, some companies procured Y335 billion in equity financing in addition to bank loans of Y40 billion. Of this amount, about Y200 billion was borrowed on time at an interest rate considerably higher than the issuance cost, and still a huge "back spread" was gained. Equity financing turned out to be a kind of "hen that laid a golden egg."

Of course, it cannot be denied that a portion of such procured bonds was routed to the securities market, and was linked to the steep rise in stock prices during the latter half of last year, widely remote from the real economy.

As an overall trend at this juncture, the corporate will for equity financing has not weakened. Although the issuance conditions have become more severe, it still remains a "golden egg." However, depending on the future stock prices, the interest-rate trend and the demand-and-supply, it is expected that competition will stiffen between the securities industry that seeks to "further hike the nominal interest rate" and the issuing companies that hope that "the issuance conditions will not be made any worse." Far from a tapering off of the issuance market, it could actually lead to a reclosure under certain circumstances.

Also, there is a view among market-related sources that "even if we can avoid the worst situation of reclosure, the scale of issuance during this fiscal year will decline by 70 to 80 percent from the previous fiscal year to between Y5 trillion and Y7.5 trillion."

Amid voices of criticism that "the chickens have come to roost for having continued to issue at low cost, ignoring the market interest rate," more and more people worry that "at this rate, the companies will be unable to procure funds at low cost. As a result, a change will occur in the mindset concerning future investment in plant and equipment, and it could act as a brake on business prosperity."

* Current Status, Future Direction of M&A Policy

912A0016A Tokyo KINYU ZAISEI JIJYO in Japanese 10 Sep 90 pp 30-33—FOR OFFICIAL USE ONLY

[Article by MITI [Ministry of International Trade and Industry] Industrial Policy Bureau International Business Affairs Division Chief, Takahito Ojimi]

[Excerpts] The Ministry of International Trade and Industry's "Industrial Financing and Business Organization Study Committee" summarized an interim report titled "Current Situation and Issues on Merger and Acquisition in Japan" on 17 August of this year. The report contains descriptions on desirable Mergers and Acquisitions (hereafter called M&A) in Japan and directions about how to carry out such transactions for the involved parties. The report also calls for studies on easing of existing treasury stock acquisition regulations, introduction of the regulatory measures against hostile M&A, and other related institutional measures.

M&A Controversy Stirred

Recent statistics show a rapid increase in M&A by Japanese businesses. Some of them attracted attention not only in the financial world but also among the general public. M&A brings out controversies from various areas who evaluate its feasibilities in economic efficiency, in stockholder-employee interests, as well as in investment reciprocity. Also, the M&A issue is closely intertwined with the issues of the industrial structural turnabout, renovation of current industrial organizations, reforms in business management methods, and international development of economic resources, thus demands for solutions by industrial policy-making is high. On the other hand, heavy demand for the appropriate legal and political measures from the industrial world regarding M&A is pressing the Japanese Government for substantial discussions of the issue.

With this in mind, MITI established the "Industrial Financing and Business Organization Study Committee" (Professor Akira Gotoh; Hitotsubashi University, chairman of the Department of Economics) last October for analysis of the current M&A situation in Japan, the United States, and Europe, and study of the appropriate niche for M&A in Japanese society, as well as structural consequences of M&A.

The following were considered before the interim report was made public.

First, whereas accurate facts about M&A are not well known, it is intended to provide later information for better settlement of debates.

Second, "The Industrial Policy of the Nineties" ("Industrial Structure in the Year 2000") announced earlier by MITI mentions the finance structure reorganization as a part of governmental support to industrial activities, and it calls for M&A to be a part of the reorganization issue. This report provides a reference and support to calls for awareness.

Third, the issues around M&A cover a wide range of legal aspects as a great many governmental organizations get involved; it is worthwhile, at this point in time, to inspire more active public debates.

Following is a summary of the interim report:

Well-Accepted Corporate Strategy

Business practices in Japan have utilized a basically internal resource; for this reason, M&A has not fit into the Japanese corporate management climate. However, there have been an increasing number of M&A's by Japanese corporations; more than 659 were recorded in 1989.

M&A in Japan has become increasingly active owing to such factors as: 1) enhanced funding availability; 2) expansion trends in the business world; and 3) difficulties in securing successors and restructuring. In addition, rapid globalization of Japanese corporations is responsible for M&A by Japanese businesses overseas, so-called "In-Out" type cases. It is safe to say that M&A has taken a firm root in the Japanese corporate management world as a part of its business strategy when we see an increase of "In-In" type M&A's, namely, ones that have taken place inside of Japan. [passage omitted]

Comparison between Japanese and American M&A markets shows the latter has as much as 10 times greater market size than the former. The difference behind this statistic may show Japanese general unfamiliarity with the buying and selling, especially trading away of businesses. In America, stockholders' interests prevail whereas for Japanese management, considerations for management and employees are equally as heavy as for stockholders; this results in a difference in management goals and strategies as well as employee welfare policy-making, factors that create the difference in the acceptance of the idea of M&A between the two countries.

Nevertheless, we shall be able to predict coming changes in Japanese business attitudes toward M&A as recent research indicates diminishing differences.

Structural Difference From America

Japanese unfamiliarity with M&A has resulted in a lack of institutional means that directly deal with M&A. In reality, the differences exist in the areas of M&A mobilization (such as establishing a holding company, issuance of corporate bonds, etc.) and/or countermeasures against hostile M&A (acquisition of owned capital, regulatory measures toward hostile M&A, etc.).

In Japan, existence of mutually rewarding relationships with stable stockholders such as the main bank or life insurance companies who finance the company as well as shared stock holding systems have been functioning against hostile M&A's. On the other hand, in the United States, with a lack of such business relations with others, a corporation guards itself against hostile M&A by taking countermeasures through acquisition of owned capital, poison pills, golden parachutes, shark repellent, and so forth; also, many states offer legal hedges against such M&A. [passage omitted]

How To Evaluate Is the Key Issue

Japanese related M&A is currently widely controversial both in Japan and overseas.

The fundamental reason for Japanese business inadequacy regarding M&A lies in the fact that both management and employees are a substantial entity with the company over a long period and their opinions are of considerable import in the company's decision-making, along with stockholders' interests. In addition, macroeconomic factors such as rising land prices, the stock market, and the value of the yen, or a short history and experience in M&A could account for the inadequacy.

Although it is hard to deny that the shared stock holding system mentioned above functions well as a safeguard against hostile M&A, it may not provide a protection toward friendly M&A. [passage omitted]

Fair and Just Handling Shall Be Sought

Shareholders, management and others who handle M&A should be aware of the following items before taking actions.

(1) Be Above Board

Since the impact of M&A greatly affects management, shareholders, employees and business associates, it is vital to ensure fair accessibility to accurate information for those who are affected. From this viewpoint, introduction of a "Five Percent Rule," namely an innovative measure recently taken for the disclosure of large-sized holding of shares, etc., must be welcomed since this would: synchronize Japanese economic/political structures on an international level and help dissemination of skill and knowledge about M&A, thus enabling Japanese businesses to develop the ability to take appropriate countermeasures.

(2) Consideration for Long-Term Business Growth and Employee Welfare

The desirable M&A would take long-term healthy growth of the business and eventual revitalization of economic activity, as well as enhancement of employee welfare into consideration. Based on this, the prospective purchaser shall make no secret about its post-merger management plans to management and shareholders, so the intended M&A will be beneficial for both parties in terms of long-term healthy growth of the business and the employees' interests.

If the merger is forced based on the shareholder's short-term interest alone, it will put a heavy burden on business undertakings of both the purchasing and the purchased, and this will be a disadvantage for both sides.

(3) Observe Consistency

The above mentioned points should be applied not only for the domestic M&A but for the overseas endeavors of Japanese enterprises. Whether it is by Japanese or by foreign purchasers, the M&A shall be well-balanced with all other related factors. Had hostile M&A or other transactions aiming at the financial gains been denied in Japan, the same principle should be applied to the similar overseas deals.

Debates Required for Legal Organization

In America, the Federal Government imposes regulatory measures upon the already frequent incidents of M&A; in addition states such as Delaware, and New York have regulations, as well, in order to prevent possible damage caused by M&A. On the other hand, there have been very few legal methods that would secure fair M&A nor have there been protective measures organized or implemented in Japan; instead, the shareholding system mentioned earlier has been taking the place of such legal devices.

Given the fact that M&A is not yet a part of the Japanese business climate, it is advisable that no aggressive promotion or excessive regulation is appropriate at this stage of development, rather it is vital to organize a framework that works against any possible negative impact of M&A.

(1) Institutional Innovation To Ensure Fair M&A

First, we must ensure that M&A's shall have practical effects through the flexible and efficient use of managerial resources, and that they be carried out above board. From this perspective, we must evaluate such efforts as introduction of the Five Percent Rule and revision of the Overt Purchasing System.

Additionally, there should be further debate on the issues of the establishment of holding companies, bond issuing limitations, trustee system, qualification standards for bond issuing, consolidated taxation, and disclosures. (2) Institutional Innovation for Prevention of M&A's Negative Impact

We must take institutional measures to prevent abusive as well as M&A's which have a negative impact on the economy. It is especially important to discuss how to control the shareholders desire for higher pricing by tightening the regulation on profits from short-term buying and selling. Nevertheless, we shall welcome the recent amendment to the commercial law which has allowed for abridged procedures for issuing of preferred shares, also deregulating the non-voting-right shares issuance limitation as it seems very likely to bring Japanese defense measures against hostile M&A's into international accord.

Furthermore, deregulation of acquisition of treasury stock, introducing U.S. regulations against hostile M&A's, etc., should be sought in order to aid our transition from conventional reliance on the stock-shared holding method into internationally agreeable M&A-related policies.

Savings Rate Will Rapidly Decline

WA29110300 Tokyo SHUKAN DIAMONDO in Japanese10 Nov 90 p 14—FOR OFFICIAL USE ONLY

[Text] A report released by the Asahi Life Insurance Company predicts that as the 21st century approaches, the Japanese savings rate will drop and one day will be overtaken by that of the United States. The report, entitled "Reflections on the Savings Rate," makes predictions concerning the future savings rates in Japan and the United States. According to the report's provisional calculations, along with the ageing of Japan's population, its savings rate in the year 2009 will drop to 7.3 percent from the 1988 rate of 14.8 percent. In contrast, the U.S. savings rate in 2009 is projected to be 7.6 percent, compared to the 2.9 percent level of 1987, with Japan and the United States thus reversing positions.

October's uproar in Japan caused by the sale of "wide" bonds (interest-bearing certificates with lump-sum interest payments), where people waited in long snaking lines at banks from 6 AM while braving the rain, brought out in stark relief the passion to the point of tears to save on the part of the people. But this inclination is not necessarily something that will continue forever.

Why will Japan's savings rate fall that much? The first reason is that as Japan's economy shifts from that of high growth to stable growth, the savings rate drops, which is the fate of the advanced countries. The real growth rate of the U.S. economy during the second half of the 1960's averaged 4.3 percent annually, and the savings rate 7.1 percent. As the growth rate slowed to an annual average of 3.3 percent during the last half of the 1980's, the savings rate experienced a big drop to 4.1 percent. Japan's savings rate in the 1970's, excluding the oil shock period of the early 1970's, continued a declining trend, dropping from 18 percent in 1980 to 14.8 percent in 1988, along with the slowdown in the growth rate. By way of contrast, South Korea's savings rate during the 1980's high growth period climbed, along with the growth rate, to reach 23.1 percent in 1988.

The immediate factor directly causing the momentum for a reversal of the savings situation in Japan and the United States is the change in population composition. While some circumstances are different between the two countries, it is accepted that one's life cycle is to save while working and to deplete these savings after retiring. The proportion of people age 60 and above in Japan's population (those depleting savings) was 16.9 percent in 1989, will grow to 22.3 percent in 2000, and will reach 27.7 percent in 2010. On the other hand, the age 25-59 "saving" stratum of the population will drop from the peak of 49.8 percent in the early 1980's to 48.2 percent in 2000 and 43.9 percent in 2010.

As the ageing population increases relatively, it works as a negative factor in the savings rate. This trend will become even more striking by 2007 and after, when the baby boom generation born from 1947-49 changes from a "savings" stratum of the population to a "depleting" stratum.

By contrast, in America the baby boom generation extended over an almost 20-year period from 1946 to 1964. Moreover, up to now they have been content to be the young "consumption" strata, but from 1991 they will begin changing into a "savings" strata aged 45-64, and will not become a "savings depletion" strata until 2011 and after. This is the opposite of Japan's situation—the U.S. population composition will tend to move the savings rate in a plus direction. This result delineates a scenario in which the savings rate will be reversed between Japan and the United States by 2009.

In the Japan-U.S. Structural Impediments Initiative talks, Japan's "excessive savings" and the trade imbalance were linked, and it was demanded that Japan correct its economic structure. However, this is not something which can be said to have a firm foundation.

The basis for the recent "wide" uproar is that the interest rate on the certificates issued in October have a guaranteed high annual interest rate of 9.606 percent for 5 years. But at the windows of some banks, crushed customers were suddenly told "we're sold out," or "there is a limit of XXX thousand yen per person." What stands out in this was the politely insolent refusal and the limitations. In the future will they consider improving the nature of this commodity to prevent overselling?

Can we be so smug while Japan's declining savings rate accelerates?

Mitsubishi, Daimler-Benz Cooperation Discussed

912A0021A Tokyo SHUKAN TOYO KEIZAI in Japanese 6 Oct 90 pp 44-45—FOR OFFICIAL USE ONLY

[Article by TOYO KEIZAI reporter, Mikio Tsutsui]

[Text] Assessment of the 11-point study on cooperation between Daimler-Benz and four companies of the Mitsubishi Group (Mitsubishi Corporation, Mitsubishi Heavy Industries, Mitsubishi Automotive, and Mitsubishi Electric Corporation), which was made public on 19 September, is sharply divided into two views.

The prevailing view taken publicly by the Japanese mass media is that "the concrete result will be Mercedes' establishment of a joint sales company in Japan, which underlines just how difficult cooperation will be."

In contrast to this, a certain German journalist residing in Japan gives the positive assessment that "it is only natural that cooperation between such massive conglomerates will require some time. There will be appreciable results after two or three years."

Talk of cooperation this time began with a request by Benz President E. Reuter for an interview with Mitsubishi Corporation President S. Morohashi, who visited Europe in the fall of last year. Since a meeting of top members in March of this year, both parties had been moving closer to the recent announcement by setting up sectional committees, etc., for each item of study to refine concrete proposals.

Mitsubishi Corporation served as a window (for this venture), and Mitsubishi Motors Corp. is very much in favor of cooperation since it stands to gain the most from Benz auto sales. On the other hand, Mitsubishi Heavy Industries feels constrained by its relationship with Boeing. It and Mitsubishi Electric both have nothing to gain from cooperation (with Benz) and are said to be at a loss about what to do, a fact that becomes very apparent from the content of the announcement.

Mitsubishi Corporation/Automotive Division Moves Ahead

Types of cooperation between Mercedes and Mitsubishi Motors are: 1) strengthening of the domestic sales system in Japan of Benz passenger cars; 2) examination of joint development and production of four-wheel drive vehicles; and 3) developing joint measures on environmental issues.

In order to strengthen sales of Mercedes in Japan, a unifying policy would be adopted this year in which the three companies of Mercedes, Yanase Co., Ltd., and Mitsubishi Motors Corp. would invest 51 percent, 24.5 percent, and 24.5 percent, respectively, to establish a new joint company to sell Mercedes Benz in Japan.

Mitsubishi Motors Corp. will sell Mercedes along with its own cars at approximately 100 dealers in its auto sales network. This will provide Benz with a strong ally in reaching its goal of attaining a one percent share in the mid-1990's.

Mitsubishi, which has no higher class of car than the Diamante, will also greatly benefit by adding the world's highest class automotive name brand to its line of products.

Furthermore, Mitsubishi Motors Corp. is showing interest in participating with Mercedes in a Mercedes-planned venture to produce medium-sized trucks in East Germany.

Next, Mitsubishi Corp. and Daimler-Benz as well as Daimler-Benz Interservice propose to form a cooperative relationship that is bound by (1) a drive to raise capital abroad, and (2) an information management system/network.

Mitsubishi Corp. President Morohashi sings his own praise saying, "This cooperation is a big strategy change for Benz, which will try to augment foreign capital in one stroke not just for Mercedes, but for AEG, etc., covering the group as a whole." Surely, as it is perfectly suited for this sort of project, it (Mitsubishi Corp.) will be in a position to exercise its full function as a commercial firm, and real results will come quickly.

Additionally, there is talk of Mitsubishi Corporation's cooperation in construction plans for a mid-sized passenger car plant in the Soviet Union. However, at this stage, any such arrangement will depend on the outcome of negotiations between the Soviets and Benz.

In contrast to this are the three proposals in the electronics and electrical appliances sectors between AEG and Mitsubishi Electric, namely: 1) the possibility of cooperation in the production of an IC [integrated circuits] for public use; 2) the possibility of mutual procurement (supply) of communications-related equipment; and 3) the possibility of introduction of technology into the European states related to multiple-door refrigerators. Each of the above includes the word "possibility" and their realization appears to be complicated.

Of further difficulty is the cooperative relationship between Deutsche Aerospace (DASA) and Mitsubishi Heavy Industries. Matters currently under examination are presently described in quite abstract terms, including: 1) exchange of concrete project information as well as market information in the aerospace field; and 2) the possibility of the exchange of technicians in specialized fields.

Director Hiroichi Maruno, who attended the meeting, seemed rather uninterested in the idea of cooperation saying: "We will set up four sectional meetings on space systems, supersonic passenger planes, medium-sized passenger planes, and aircraft engines, and will exchange information on such things as estimates on current demand, but nothing definite has emerged at all, and it will take some time before it does."

It has been pointed out that up until now, in the area of commercial aircraft, Mitsubishi Heavy Industries' relationship with America's Boeing has been pivotal. So far, it has participated in the production planning of both the B-747 and the B-767, and others, and is now proceeding with plans for joint development with Boeing of a B-777 wide-body craft seating between 300 and 350 passengers.

In light of that, it is only natural that any relationship of cooperation between [Boeing's] greatest rival, DASA, which is a member of the European Airbus Group system, would be limited.

DASA, meanwhile, is very eager for joint international development of Japan's small-sized passenger plane project, "YSX", and the "MPC 75" of Messerschmitt (a company that DASA absorbed). It is also believed to want to get Mitsubishi Heavy Industries involved in the development of a new jet engine that would be used in just that class of aircraft.

Moreover, in the field of space development, Mitsubishi Heavy Industries possesses a track record in liquid rocketry, whereas Dornier, under the umbrella of DASA, has orbital know-how from its participation in America's space lab project but is deficient in large rocket technology. Since one compensates for the other's deficiency, future cooperation is possible.

However, before everything else, there is Mitsubishi Heavy Industries' consideration for Boeing which originates from competition between the B-777 and the Airbus.

Benz' True Aim

There is an additional reason for Mitsubishi's Electronic and Heavy Industries sector's cautious attitude.

According to a certain person connected with Benz: "Benz had AEG and Messerschmidt and other companies, which were lacking in competitiveness but which could not be allowed to go down the tubes due to industrial strategy reasons, taken over by the number one stockholder, Deutch Bank. Chairman Reuter's job is the restoration of such unprofitable sectors."

Considering that virtually the only method of restoring competitiveness to uncompetetive firms is through acquisition of know-how from superior firms, Benz' zealous attitude is understandable. That is the purpose of cooperation.

Meanwhile, for Mitsubishi Electric and Heavy Industries, getting caught up in shrewd Chairman Reuter's pace and merely giving away technological know-how would be an intolerable situation. It is, therefore, inevitable that Mitsubishi Electric's attitude would cool to Mr. Reuter's "extreme zealousness."

Chairman Reuter, sensing hesitation on Mitsubishi's part states: "What I need to do is try to convince them that cooperation would be beneficial to them."

Presently, however, with the unexpectedly rapid reunification of Germany, it is easy to imagine that the attractiveness of the Benz deal to Mitsubishi is increasing since the time of their first meeting in March.

At any rate, as a result of the 11-point study, what can and cannot be done should be clear by the time of the third top level meeting this spring.

'Group Mitsubishi' Coming Apart at Seams

912A0043A Tokyo ZAIKAI in Japanese
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[Article by journalist Kotaro Tokuda]

[Text] The tie-up scenario involving Daimler-Benz and four Mitsubishi companies, including Mitsubishi Heavy Industries,surprised the world in March. Strong criticisms are being made that in the Tokyo meeting held half a year later, there wasn't any significant result, aside from the establishment of a Mercedes-Benz sales company in Japan. The pace of companies in the reputed "Group Mitsubishi" is getting out of step. What will happen to the tie-up?

Question Leadership of Mitsubishi Corp.

The first Tokyo meeting of Mitsubishi and Benz groups was held on 19 September at Hotel Okura in Minato-ku, Tokyo.

Representing Mitsubishi were: Shinroku Morohashi, president of Mitsubishi Corp.; Yotaro Iida, chairman of Mitsubishi Heavy Industries Ltd.; Moriya Shiki, president of Mitsubishi Electric Corp.; and, Toyoo Tate, chairman of Mitsubishi Motors Corp.

From the Benz side, a large group participated, including: E.Reuter, president of Daimler-Benz; Gerhard Liener, vice president in charge of finances; and the presidents of Mercedes-Benz, AEG and DASA [Deutsche Aerospace AG].

This was the second top-level meeting of the two groups. Initially, leaders of both groups met in March in Singapore and agreed to have group companies start tie-up negotiations covering a wide area.

The first meeting can be said to have been a startling occasion since industrial groups, representing Japan and Germany with influence in defense industries, were to join hands.

For that reason, special attention was being given to any concrete tie-up agreement that might come out of the second Tokyo meeting. "We're wondering what are the important talks that will emerge? What are the two groups with interlocking interests going to do?"—these questions were being raised from early on by rival trading companies and manufacturers.

Six months have passed since the March Singapore meeting. For Mitsubishi Corp., which assumed the "managerial role," its future weight within the Mitsubishi group will change depending on the competency it shows as a group coordinator so honor was involved.

Above all, for President Morohashi, the tie-up scenario with Benz was the biggest showpiece of the all-inclusive enterprise tie-ups which he advocated. Probably, he was faced with the urgent necessity of wringing out results, somehow, from the tie-up negotiations.

Following are the items for cooperative endeavors among the various companies of Benz and Mitsubishi groups discussed at the recent top-level meeting:

- Mitsubishi Corp. and Daimler-Benz cooperation in overseas materials procurement for global business development by both companies. Cooperation in establishing information management systems.
- Mitsubishi Motors Corp. and Mercedes-Benz establishment of a joint company for sales of Mercedes-Benz cars in Japan. Cooperation in development and production of four-wheel drive vehicles. Development of environmental countermeasures for automobiles.
- Mitsubishi Electric Corp. and AEG cooperation in production of commercial-use integrated circuits. Mutual procurement of components for transport equipment. Introduction of multidoor refrigerator technology in European market.
- Mitsubishi Electric Corp. and DASA exchange of aerospace engineers.
- Mitsubishi Heavy Industries Ltd. and DASA exchange of information on markets and projects in the aerospace field. Exchange of engineers in specific fields.

The establishment of information management systems between Mitsubishi Corp. and Daimler-Benz has the possibility of developing in the future into "kith-and-kin relationships" where the various companies of Mitsubishi and Benz groups will mutually possess the same information through joint uses of computer software and it is a significant item though not highly visible. However, it is also true that seen from the standpoint of creating an operational base, the talks fell short of expectations.

Actually, the collaborative development of four-wheel drive vehicles by Mitsubishi Motors and Mercedes-Benz as well as the introduction of the multidoor refrigerator technology in Europe result only in extending Japanese technology and the merit for the Mitsubishi side is small as compared with that for the Benz side.

"For the past six months, the two groups discussed means of advancing technological exchanges and projects and I think the interim progress has been satisfactory. In the short period, a fruitful course has been determined. I would like to hold another top-level meeting as early as next spring to finalize the tie-ups."

At the press interview after the meeting, President Morohashi of Mitsubishi Corp. asserted that the tie-up negotiations are proceeding steadily. The results of the Tokyo conference consist of the aforementioned 11 items.

However, regarding the results of the tie-up talks, distressing revelations are being made by various Mitsubishi group companies: "It is doubtful whether the tie-ups will proceed smoothly. The agreements were 'squeezed out' as a last resort to save the face of Mitsubishi Corp. It is uncertain what will happen hereafter."

In fact, President Shiki of Mitsubishi Electric, which "assumed the role of carrying out technology," asserts that "there is nothing to learn from the other side (Benz) regarding semiconductor production," while Mitsubishi Heavy Industries, which is strengthening its partnership with the U.S. Boeing Co., appears even reluctant to participate in talks with the Benz group.

Mitsubishi Heavy Industries Director Koichi Danno, who was present at the press interview, could not say anything more than "talks with us will probably require time."

However, regarding these comments, senior officers of Mitsubishi Corp. are saying: "We cannot reveal them at this time but many more items are being discussed. In any case, Benz is the leading enterprise of a great Germany which is the heart of the EC. Some persons have shortsighted views but the tie-up between Mitsubishi and Benz should be seen from a long-range standpoint."

Yanase Profits From Rivalry

The two firms which gained real benefits were Mitsubishi Motors of the Mitsubishi group and Yanase & Co., which is totally unaffiliated with the Mitsubishi group. It might be an exaggerated statement but Yanase, in particular, "took advantage of the turmoil." The reason is that agreement was reached at the recent top-level meeting for the three firms of Mitsubishi Motors, Yanase and Mercedes-Benz to set up a new company for import and sales of Benz automobiles.

Four years ago, an "incident" occurred in which Yanase, which had the sole rights to import and sales of Mercedes-Benz automobiles, was suddenly deprived one day of its right to import Benz cars to Japan.

Benz set up a wholly owned subsidiary, "Mercedes-Benz Japan Corp.,"in Tokyo. The aim was to expand sales of Benz cars in Japan. Believing that "if Japan is a growing market, luxury Benz cars should sell even better," it entered the Japanese market on its own.

Import and sales rights changed from Yanase to Mercedes-Benz Japan. That is, Mercedes-Benz Japan imported and wholesaled Benz cars to Yanase which then was the conduit for the sales. Yanase was downgraded to a subdealer.

The underlying reason why Benz set up a wholly owned subsidiary in Japan was that it had noticed that its rival BMW had successfully established a subsidiary in Japan. Benz had been pressed for larger sales, especially, of the 2,000-cc "190" model developed specifically for the Japanese market.

Until then, Yanase had followed the sales policy of "taking great care in the sales of deluxe Mercedes-Benz cars." It is true that such a marketing method had been successful in creating the present image that "Mercedes-Benz is a high-class car" but....

As a result of the recent meeting, Mercedes-Benz, Mitsubishi Motors and Yanase will set up the "Mercedes-Benz Sales Japan," which will be owned 51 percent by Mercedes-Benz and 24.5 percent each by Yanase and Mitsubishi Motors. With the establishment of the new company,the present Mercedes-Benz Japan Corp. will be absorbed in the new organization.

As for the Mitsubishi group, there was a reason why Mitsubishi Motors gained real benefits.

Until now, the said company was being pushed around by the shrewd Mercedes-Benz. The recent top-level meeting of the two groups actually originated from the sales agreement between Mitsubishi Motors and Mercedes-Benz. Therefore, the honor of Chairman Tate, as the mover who created the opportunity for the group tie-up, is being maintained but in reality, that sales agreement did not have special merit for Mitsubishi Motors.

Mitsubishi Heavy Industries Takes Cautious Stand

Chairman Tate's ulterior motive was to sell Mitsubishi cars jointly through the sales agreement with Mercedes-Benz. His aim was to upgrade Mitsubishi's image through display of highly popular Benz cars in showrooms and expand sales of Mitsubishi's Galant and Mirage models. It was a strategy to "sell Mercedes-Benz to rich parents and Mirages to their daughters."

However, that idea was discarded by the Benz side. They refused joint sales with Mitsubishi cars. For this reason, Mitsubishi Motors had to pick up several dealers from the dealer network and start initially with specialized dealers selling only Mercedes-Benz cars.

This point was straightened out at the recent Tokyo meeting. After establishment of the three firms' joint company, the joint sales of Benz and Mitsubishi cars will be possible even at Mitsubishi Motors' Galant dealers. The objective of the sales agreement, which was concluded in 1978, was finally attained.

The Benz side took in Yanase and upheld the honor of Mitsubishi Motors because they probably realized the "intense competition in luxury cars." Though it is the Daimler-Benz group of mighty Germany, it is said that Mercedes-Benz, more than AEG or DASA, actually earns the most profits. In the deluxe car market of Japan, it had to draw in Mitsubishi and rebuild a solid foundation. With Toyota Motor Corp. putting the luxury passenger car, "Celsior" [export model, Lexus] on the market and likewise, with Nissan Motor Co. developing the "Infiniti," the 3-number [license plate number beginning with "3" for cars over 2,000 cc] market is no longer being monopolized by imported cars.

At the recent Tokyo meeting, various views of different companies whirled about and as a result, the establishment of a joint company with Yanase and Mitsubishi Motors had to be made the centerpiece. Mitsubishi Motors achieved results, for the present, but the collaborative item between Mitsubishi Electric and AEG did not, in effect, form any commercial base.

Even with regard to the cooperative item between Mitsubishi Heavy Industries and DASA, the cautious stand taken by Mitsubishi Heavy Industries, out of consideration for the United States, was firm and it can be said that the coordinator, Mitsubishi Corp., had not acted in concert.

It might even be said that the pace of Mitsubishi companies was not instep. The forte of the so-called "Group Mitsubishi" is the strength of its unity. Although it was a short period of half a year, joint group proposals did not emerge in this last tie-up scenario. A senior officer of Mitsubishi Corp. states that, "There are many hidden proposals which cannot be revealed but a number of them will be announced at next spring's meeting." But is it an exaggeration to say that Mitsubishi's unity is beginning to "come apart at the seams"?